★ MARKET SEEKS MORE REALISTIC LEVEL ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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More People for a Growing Business

Bell telephone companies offer good opportunities for capable men and women

There's a great deal of wonderful equipment connected with your telephone. But it takes people to bring it into being and make it work. And there have been big increases in the number of telephone people—especially in the last few years.

Despite the large increases in the use of dial, there are today 234,000 operators in the Bell System. This is about double the number that were required before the war. And in many places Bell telephone companies need more people right now!

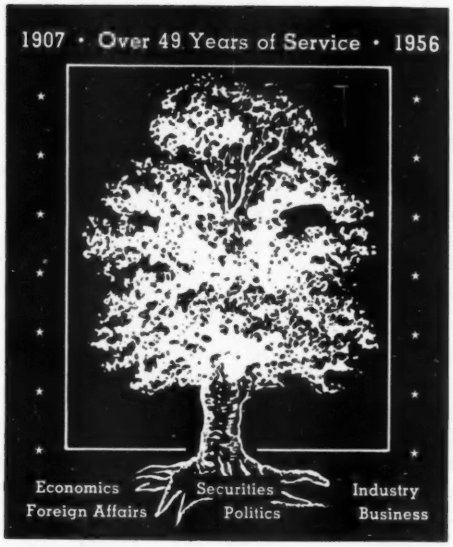
All in all, there are more than 740,000 men and women employed by the Bell System—an increase of 265,000 in the last ten years.

This is the largest number in history and shows that "people are the greatest invention yet" in the telephone business.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

ANSWER TO THE KREMLIN . . . President Eisenhower was at his best in his reply to the Soviet Union's spurious proposal of a 20-year treaty of friendship with the United States. His answer to this insincere suggestion, a blatant propaganda maneuver that will fool only the fellow-travelers, was that such a pact would be meaningless unless buttressed by concrete measures toward removing international friction. Cordial but firm, he underscored "the illusion that a stroke of pen" could accomplish a result that could only be obtained by "a change of spirit." The President is too wise a man to expect a change of spirit from the Kremlin, whose foreign policy objective is global paramountcy. This latest Kremlin maneuver is in keeping with the meeting at Geneva in 1955, when the Reds drooled about peace while conniving to set the Middle East aflame. The common-sense analysis by the President of this latest Moscow maneuver can only, once more, make the leaders of the Free World realize the oustanding gifts of Mr. Eisenhower. It is no wonder that his countrymen pray his health will permit him to serve another term.

THE REAL FARM CRISIS . . . The Senate Agriculture Committee has completed hearings on the so-called soil bank plan, heralded as the latest solution of the farm problem. This farm problem is generally oversimplified into the statement that the farmer's income is going down while that of everyone else is rising, and that there is an imperative need for changing this state of affairs.

There is a farm problem, but the "problem" to which the Senators—as well as all the other politicians in the Capital—have been devoting themselves is not it. The problem is that the needs of this country for foods and fibers, leather and industrial fats, can be satisfied by fewer farmers than are at present working on farms—and that instead of recognizing this fact we have been behaving as if it didn't exist.

The consequence is that the farmer has been cut loose from the free market. What he shall produce, and the price he shall get for it, is no longer governed by the only control which ever works—the demand of uncoerced buyers for the product. That is why this country groans under a hoard of $7 billion worth of foods no one wants to eat and fibers no one wants to wear. (From time to time the hypocritical cry is raised that "Many million of human beings are going hungry to bed tonight while this country pays $1 million a day just to store its surpluses." Those who raise it would be the first to protest any move toward pricing those surpluses to reach that supposed market.)

The concept of parity, used as a measure of what the farmers gets compared with what he pays, was false. It was rigged at its inception to give the farmer the best possible break. For every crop but tobacco, the 1909-1914 period was taken as base, but since tobacco growers had a more favorable position at another time, this was given them as a base.

Today one per cent of farms, by number, market 17 per cent of commodities. Nineteen per cent of farms sell the next 63 per cent. The last 80 per cent of

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: :1907—*"Over Forty-nine Years of Service"*—1956

farmers deliver only 20 per cent. Facing such a spread of size and efficiency, the whole idea of parity loses its last shred of validity.

The enormous factory-in-the-field farmer—Delta Pine in cotton, Thomas Campbell in wheat, Texas' Steinhagen farms in rice—reaps an enormous profit by selling to the government. Delta Pine's cotton loan, so-called, in 1954 was $1.4 million.

The forward-looking, self-respecting farmer has made a record of production increase since 1940 which compares most favorably with that of industry. He has increased his output, improved his quality, and lowered his costs in the finest tradition of free enterprise. That he is not suffering in this endeavor is shown by the enormously enlarged sales of farm equipment in those years. Most importantly, his faith in farming is eloquently attested by the fact that farm land prices are at their all-time peak.

Obviously, the last eighty per cent of farmers are a problem. They only make a living, and a meager one, when farm prices are twice the lowest-cost producer's costs. They farm marginal acres by inefficient methods. They are not good managers of workers themselves—otherwise it would be hard for them to remain a problem in a time of unexampled prosperity.

While they are a problem, they are just as obviously not a farm problem. They are an eleemosynary problem. To better their lot by raising farm prices makes as much sense as it would to salvage the town's poorest man by giving him and the richest man like percentage increase in their incomes. To raise the smallest, poorest farmer's income by a soil bank program is ridiculous. He can't live on what he raises now. What becomes of him when some of his poor acres are turned to grass?

Every attack on the farm problem holds the promise that some day the free market will return. Actually, the return of the free market is the solution of the farm problem. It would be costly in money and suffering. But the price will not go down as we temporize. It will go up. The day will come when the nation will be so exasperated with the farmer's complaints that it will fling him onto the free market with no consideration at all.

A real friend of the farmer would tell him now that the subsidy program in whatever guise should be junked as of the 1956 crop, while there is still enough goodwill toward the farmer to assure individual farmers of the collective help they need in adjusting to the fact that they are no longer needed in the farm population. Such friends, it appears from Congressional debate so far, are so scarce as to be invisible.

PROBLEMS OF CITY FINANCE . . . Most big city administrations in the United States would admit that present-day ever-growing budgetary requirements cannot be met without either (a) raising real estate taxes (principal source of revenues) to intolerably high levels, (b) obtaining a greater share of direct State aid, or (c) raising their debt limits after securing statutory State approval. To find the sums needed to provide for new and enlarged facilities and services, municipal authorities are forced to tap every possible source of revenue to the utmost, but this is a race which they are not winning.

The rapid influx of new populations, either through increment of residents or transients, creates civic problems of a type not known in days gone by when population growth was more gradual. To a very great extent, this situation has its origin in the vast national population resettlement of the post-war period, a trend which apparently is gaining in momentum. It is unrealistic, therefore, to expect municipal authorities to be able to meet their financial obligations from their own resources alone, since the problems have been created not so much by local as by State and national changes.

Under these circumstances, many thoughtful citizens who are facing up to the facts squarely are beginning to see that municipal financial problems are increasingly a responsibility of the States as well as that of the local authorities, and that this inevitable change in the relations between city and State will be more in evidence with the years. It would not be too much, therefore, to anticipate that in the foreseeable future, jurisdiction of municipal authorities over their budgets will, to an important extent, be transferred to the State authorities. This is bound to exert a profound influence over the functions of local governments throughout the United States.

HOIST BY THEIR OWN PETARD . . . Democrats, whose political lexicons contain the word "moderation" as well as those who have spurned it for the forthcoming campaign, have made it abundantly clear that "Giveaway" will be a ringing shibboleth when their minions take to the husting. Giveaway, under such auspices, is certain to be freely translated as Dixon-Yates, Tidelands, synthetic rubber facilities, Hell's Canyon—to cite the list at retail. Their Senator Paul H. Douglas of Illinois, who can get it for you wholesale, notwithstanding, the charge of giveaway in the matter of Federal regulation of natural-gas production is likely to lack the fervor of other issues. For the natural-gas bill, which has occupied Senators since the start of the year, finds Democrats working both sides of the street. Indeed, the bill is a pet project of Senator Lyndon B. Johnson, a Texan who serves as Majority Leader. Senators from such "gas" states as Texas, Oklahoma, Louisiana and Arkansas are Democrats who have been unable to detect any giveaway aspects in the present legislation.

Introduced by Senator J. William Fulbright of Arkansas, it is designed to overturn a Supreme Court decision and free the producer from Federal Power Commission jurisdiction. The High Court, ruling in 1954 on a test case, held that the F. P. C. had jurisdiction over all sales of natural gas for resale in interstate commerce, whether made before, during of after production and gathering. Mr. Douglas and other Democratic legislators from Northern States are predicting that the annual gas bill of consumers will rise on the order of $50 million if Fulbright & Co. has its way.

We leave it to Republicans to enjoy the discomfort of their Democratic colleagues, who are unable to agree whether this is another giveaway. The term has been overworked (*Continued on page* 604)

As I See It!

By CHARLES BENEDICT

LET'S FACE IT!

We have reached a crisis in our relations with Britain. Events have underscored the fact that since World War I every step we have taken in collaboration has turned out badly for us.

We are miles apart, for British policy follows her commercial and financial interests—let the chips fall where they may.

As a result, in backing up Britain, we have been on the wrong side of many questions — which has not only weakened the United States but, with it, the Western powers, including Britain.

And, as matters go from bad to worse, our leaders seem unwilling to recognize the widening gap between our interests, although it is clear to the rest of the world and especially the foe. In fact, in a recent editorial in *Pravda*, Yuri Pavlov asserted that a "facade of agreement" likely to emerge from the talks with Mr. Eden in Washington could not conceal "glaring inner contradictions between the British and American partners, whose interests not only do not coincide, but often conflict sharply."

It is recognition of this situation that has brought such diplomatic success to Russia in the cold war and on which we can expect she will continue to rely to win decisive victories.

The British always have used appeasement as an expedient in the hope that events would so develop that she might be able to extricate herself — to muddle through. But such a policy calls for leadership of the first rank and no great leader, with the exception of Winston Churchill, has emerged in Britain for many generations. And Mr. Churchill labored under the greatest handicaps.

Why the British continued a policy of appeasement, when it invariably served them so ill, is fantastic, particularly when it is realized that their greatest successes, achieved in another day, were marked by daring and bold initiative—that the respect they engendered by the policy of old enabled them to control India with a token force.

A BRITISH VIEW OF THE BIG CHANGE IN 'COLONIALISM'

Cummings in The London Daily Express

"PROGRESS"

Up to now, our collaboration with Britain has caused us tremendous loss of prestige and untold billions of dollars—lost us China—enabled the Soviets to build up a formidable bloc that menaces our security — purely by diplomacy and without risk to their own forces. Witness the militant aggressiveness of the new Arab bloc, which dares to interfere with our commerce and trade—the arrogance of Egypt in her complaints that we are not pledging ourselves sufficiently to meet her requirements for the grandiose Aswan High Dam, which we are supposed to underwrite without any guarantees from her of a political, military or economic nature.

What could Mr. Eden possibly have said in the face of the world situation that would prompt us further to put our head in the noose? Could he have told us we must continue to assist Britain because of the bad effects on our economy of British economic reverses? To this we could have readily replied that up to now it has been our economic and financial support that has enabled Britain to survive and that there is nothing that Britain can do in the Middle East if Russia continues to urge the Arabs to nationalize their economy (oil).

Did Mr. Eden tell us that if we recognize Red China, as Canada appears ready to do, that Russia would lay off? We know better than to believe that. What then (*Please turn to page* 604)

Stock Market Nervous

The stock market is on the defensive, reflecting investment caution and doubt. Individual issues are not responding much to good news on dividends or splits. Although positive trend indications have yet to be provided, a further downside test must be allowed for. Defer buying for capital gains. Portfolio changes should be along defensive lines where needed.

By A. T. MILLER

The stock market waits nervously for President Eisenhower's decision on another term. It is less confident about the 1956 business outlook than at the turn of the year. As a result, the over-all stock prices edged downward over the last fortnight, extending the zig-zag retreat from the December 30 bull-market high of the Dow industrial average and that of the rail average from its November high. At the poorest recent closing level, reached in the initial trading session last week, the industrial average had given up a little more than one half of its October-December upswing from the low recorded following the initial news of the President's heart attack; the comparable cancellation by rails was nearly 64%.

Thereafter, the sell-off was checked by a sizable two-day rally. Dwindling trading volume, however, indicated investment and speculative unwillingness to reach for stocks in the immediate environment of uncertainty and caution. By the week end, a goodly part of the mid-week rally had eroded away in a dull market.

Basis for immediate improvement in market performance cannot be cited. In its absence, the alternatives would seem to be some further downward move or a phase of sidewise drift until the market gets its long-awaited cue from the White House.

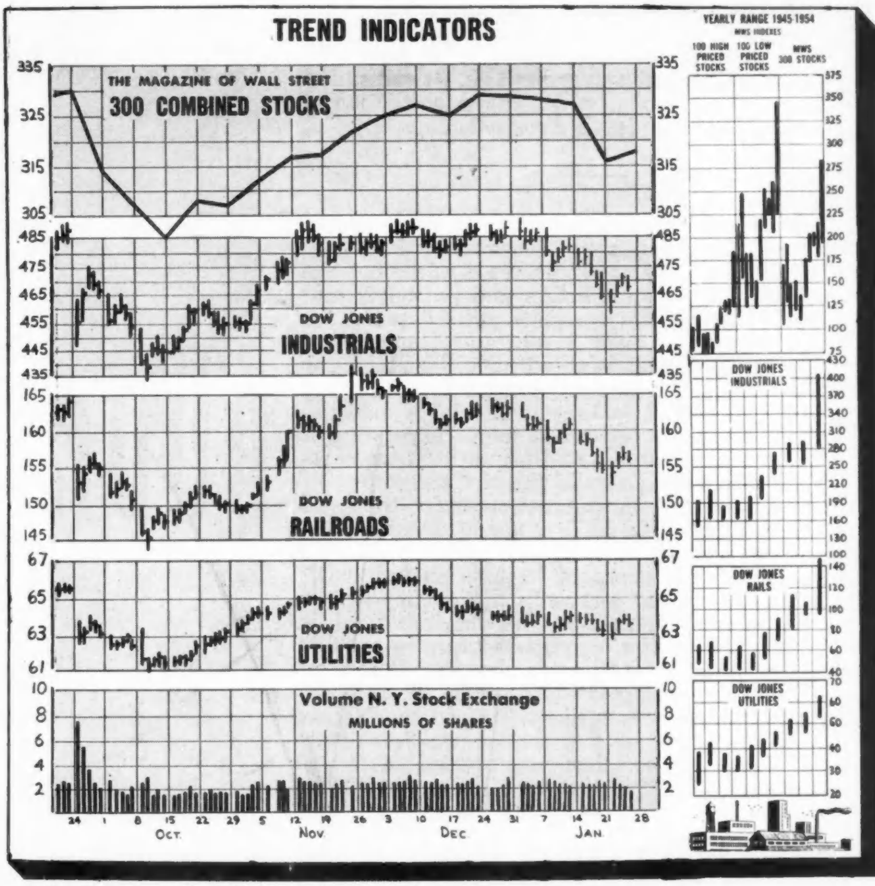
The Present Technical Picture

New highs were attained by both the industrial and rail averages on the rise from the October lows. Hence some theorists argue that we have a "new deal" and now the October 11 low no longer has significance as a support-level reference point. Those who adhere rigidly to "technicalities" have to take that view. It does not seem well-founded to us. In the case of both averages, the extension of the major upward trend, as measured from the highs of last September, was so modest—a little over 2% for rails and a small fraction of 1% for the industrial list—that, for all practical purposes, we have now had a trading-range market for about four months. So viewed, the market is in a technical "no man's land" and will remain so until either the late-1955 highs are definitely penetrated or the October 11 low is broken.

We have heretofore recommended the paring down of speculative positions on rallies, the maintenance or building up of conservative reserves in cash or equivalent, and the qualitative upgrading of portfolios via increased representation in defensive-type income stocks and in bonds and preferred stocks. Those who have followed this advice are now in a relatively comfortable position, are under no pressure to guess what the early future might hold in store and can afford to wait for the market to tell its own story, especially

as regards a firm support level.

In late September and early October it was virtually taken for granted that the President could be ruled out as a candidate for re-election. Since then, hopes that he would run again have blown hot and cold, with the latter so in recent weeks and days. It has seemed logical, on the face of it, to figure that elimination of Eisenhower from the 1956 race was fully allowed for at the October low; and, therefore, that a decision to that effect should not of itself suffice to put average stock prices back to or below the October 11 level, since the market does not as a rule discount the same thing twice. The other contingency is less debatable. That is, if the decision is what so many investors desire, the immediate result would no doubt be an explosive market upswing, possibly extending the bull market. At this time, with the averages not close to a test level of any significance either way, one should avoid dogmatic opinions based on "iffy" grounds. That goes for the assumption that "Ike's" withdrawal was discounted at the October low, which may be so but cannot be considered certain. And it goes for the question whether a favorable decision would reinvigorate the bull market to an important degree, or induce a limited swing stopping short of or not much above the prior highs.



In the first place, this Presidential situation is unprecedented. In view of the major role played by "Eisenhower confidence" in the market rise during recent years, it remains to be seen whether or not bullish sentiment would be subject to further cumulative erosion, if the President takes himself out of the running. True, shock would be absent, but disappointment and caution would linger.

In the second place, as noted early in this discussion, there is now an increased tendency to question the previous projections of moderate gains in 1956 activity in most lines of business, and for the economy as a whole. Thus, the immediate political uncertainty—expected to be resolved around mid-February—is not the whole market story at the present time. Moreover, these two considerations are tied together to a degree not easy to measure. That is, a negative decision by the President could tend to increase investment uncertainty about the business outlook. It would be nothing new for market caution on one principal ground to breed additional caution on other grounds. Allowing for both bad "Eisenhower news" as a contingency, and doubt about business, the October low cannot be considered inviolate, of course.

The gradual rise in aggregate dividend payments is continuing, but it is not a favorable omen that individual stocks are largely ignoring good dividend or stock-split news, or getting only small and brief stimulus therefrom. Examples, in the case of good dividend news recently, include American Smelting, Bethlehem Steel, Revere Copper & Brass, United Air Lines, American Chicle, Evans Products, Kroger, Socony Mobil, Schering and Southern Company.

On the supporting side, the Dow average is on a yield basis of about 4.63% on 1955 dividends and an estimated basis of 5%, or a little more, on likely 1956 dividends, the most conservative figures in a good many months, both absolutely and in relation to bond yields. But most people buy stocks for profit, not yield; and the venture spirit is subdued right now. The mid-January short position was the lowest since mid-October, 1953. Meanwhile, the automobile and housing recessions continue, and the steel situation is not as strong as it looks on the surface. There has been considerable forward buying of steel, allowing for a general price boost around mid-year. This, and/or a steel strike (labor demands will be heavy), could be at expense of third-quarter and second-half production. We continue to think that, at best, 1956 corporate profits will do well to equal 1955's. It would not take much easing in volume to change the profit picture considerably. No alteration is justified in the conservative, highly selective policy we have for some time been advocating.—Monday, January 30.

BUDGET *finally balanced*

(Editor's Note: Mr. Nicholson makes an excellent contribution to our knowledge of the composition of the President's Budget for fiscal 1957 in his amazingly compact, yet inclusive, analysis. At the end of the article will be found a discussion of the major features of the President's Economic Report.)

Two impressive facts stand out concerning the Budget presented to the Congress by President Eisenhower on January 16: One is that the balance claimed is based upon a fiction and second is that all experience suggests adequate grounds exist for claiming a balance, even a substantial surplus at the close of the fiscal year without resort to any myth! A third and vital consideration attending any study of the Budget is that it furnishes evidence that the Administration recommends expenditures which, during the Roosevelt-Truman era, were regarded as calculated to build the welfare state.

The bare bones of the Budget show for the fiscal year to end June 30, 1957 expenditures of $65.9 billion and receipts to meet these costs of $66.3 billion. Here is an apparent balance on the credit side of $400 million. Yet only a footnote in the smallest type whispers that the receipts total is based upon action of Congress in granting a $350 million increase in postal rates. Congress has been asked for such an increase before and has rejected it. It scarcely now seems likely that, in an election year, Congress will take an action which will increase to readers the cost of newspapers and magazines received through the mails. *Yet practically all the claimed surplus is predicated upon the flimsy assumption that the added revenue is as good as in the Treasury.*

What makes this curious example of bookkeeping legerdemain seem doubly strange and unnecessary is that beginning just prior to the hour in which the last touches were put on the Budget, the country was almost blanketed under well-considered reports of wellnigh unprecedented prosperity since the beginning of the current fiscal year together with forecasts, firmly based, that the high rate of production, earnings and the other elements which go to the making of good times will continue for many months to come. The President and the Treasury had every reason to believe that income will far exceed the rosiest early estimates and that the natural course of fiscal events will bring in revenues which will dwarf the one item which emphatically cannot be depended upon!

The gossip of some political scanners of the Budget is that the President deliberately underplayed the prospects of blooming times and automatically larger revenues so that later on in this election year he can more resoundingly bring attention to the improved fiscal status. Another theory is that the Administration feared to make the outlook too promising lest greater pressure be brought to inflate appropriations. The latter idea is somewhat credible for it is all too true that Members of Congress at times closely resemble a small boy with a fresh allowance or a sailor ashore whose money is burning holes in his pockets.

The President sought to close the door on any hope of tax reduction at this session of Congress and, indeed, there is no such hope on the strict basis of the Budget if the increased expenditures called for are voted by the legislators.

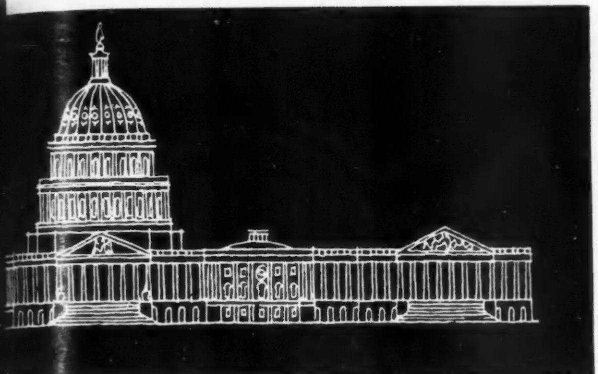
The "Welfare State" Again

In the light of the many attacks which were made upon the Roosevelt and Truman Administrations for their non-defense spending in what then was called the welfare state category, it is passing strange to Members of Congress in both parties to realize what this new Budget calls for. There is an entire Budget category under the general heading of Labor and Welfare. Going back to 1948 we find what then seemed the fantastic figure of $1.3 billion. Year by year the sum mounted in accordance with the policy of the Truman Administration then in full power and in its last year the total in this category had reached $2,426 billion.

There seemed reason to believe that this vast sum would quickly be reduced in the new Eisenhower Administration. To be sure there were overhanging obligations but it was expected the rising trend would be halted. On the contrary, the next year showed $2,485 billion; the current fiscal year of 1956 shows a Budget figure of $2,767 billion and, for 1957, the President has urgently recommended $2,995 billion!

For more than a generation now, the greatest cost of governmental operation has been due to the necessity for defense. In this category there has, indeed, been a slight decline. Even though obsolescence is the constant bugbear of modern armaments there still are many items in which an investment can be made without early need for replacement. In 1955 the total figure for defense costs was $35.53 billion, the 1956 sum was $34.57 billion and the new expenditure for 1957 is placed at $35.54 billion.

There has been no destruction of munitions on battlefields, no ships lost in seafights since the Eisenhower Administration achieved the peace in Korea and yet these annual costs remain at a high level. This is because technology advances so rapidly that the tools of war become obsolete before



BUT for how long?

By HOWARD NICHOLSON

they can be used. A continuing effect of this is that procurement must be continuous. It is unquestionably true that at the end of hostilities the frantic rush of production eases but merely to keep even with developments new contracts must be awarded, new supplies produced. It is a legend that old soldiers never die but a fact that equipment is retired before it has a chance to get old.

Cost of Technological Change

In the category of procurement and production the 1957 Budget estimate of expenditures is placed at \$11.7 billion compared with \$11.8 billion last year and \$12.9 billion for fiscal 1955. The item for aircraft is \$6.75 billion, chiefly for the Air Force and the Navy. Aircraft furnish an excellent example of how quickly immensely costly instruments of defense become obsolete. It was only yesterday that the jet principle of propulsion was merely experimental. The new money is for long-range jet B-52 bombers and F-101 and F-104 supersonic interceptors, creations which but a short time ago had not emerged from the comic strips! For the Navy, emphasis will be upon the new supersonic 5-8U fighter.

For procurement of guided missiles, expenditures will reach a record high, one third above the previous year and double 1955. The new estimate is for the expenditure of \$1.27 billion. There is much that is secret, so far as details are concerned, in any defense budget but the figure under 'Other Procurement' which is \$2.65 billion, down from \$3 billion a year ago, will include such standard items as trucks and tanks and other combat vehicles, ammunition and the thousands of things which go to arm a military force. Not a little is to be spent on electronics equipment, much of it secret.

The Navy is in superb shape but \$1.03 billion is asked in the ship category. The principal new construction will be a sixth carrier of the Forrestal class. Also it is proposed to build a nuclear powered cruiser and work is to be done on the building of atomic plants which can be installed, perhaps at a later date, in carriers or other ships upon conversion. Then, too, an unstated number of additional nuclear submarines are to be built and also destroyers and frigates especially designed to mount guided missiles.

Naval building requires a long lead and much of this money for 1957 fiscal will begin construction for which additional funds will be required in later years. It is strongly suggested that much of the Navy will be converted to atomic power.

Rise in Research Expenditures

The category of research and development in the defense budget necessarily cannot be explained in great detail for so much of this work is veiled in the greatest secrecy. Of the utmost significance, however, is the steady rise in the sums of money asked from Congress to forward this work. But a short time ago such a category was practically unknown but in 1955 Congress voted nearly \$1.4 billion. The next year it was nearly as much and the sum asked for 1957 is \$1.43 billions.

Not only will much work be done in the field of nuclear energy in adaptation to weapons but in other scientific areas, no hint of which in many cases is known beyond a close circle. But it is certain that each new branch of research reaches out into industry. New laboratories will be built, others expanded and an inquisitive search will be maintained and extended to find and assess new minerals and other materials which, through the magic of science, can be turned to the purposes of national defense.

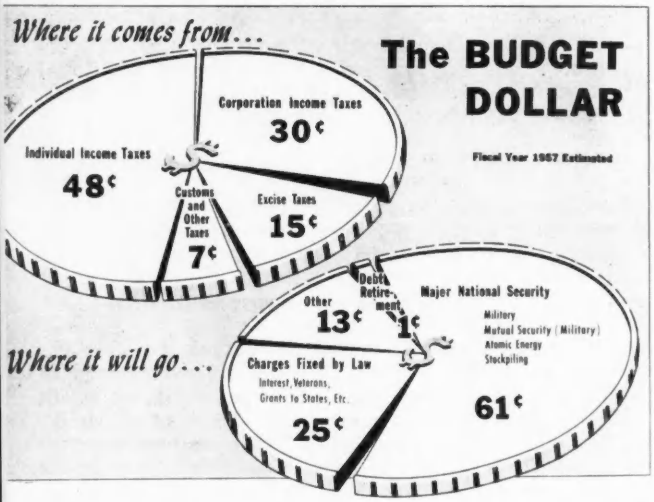
Military public works is a category in which industry has a strong interest. The figure for 1957 is \$1.81 billion compared with \$1.89 billion a year ago. New projects include Nike sites and additions to the Distant Early Warning Line. Also, new bases for the Navy and the Air Force are to be constructed.

Payroll for the active forces remains fairly steady, the figure for the new fiscal year being \$10.33 billion compared with \$10.34 billion a year ago. Retirement pay increases as additional personnel become eligible for the retired list. For fiscal 1957 the sum of \$525 million is asked compared with \$520 million last year.

On the atomic energy account, the new estimate is for \$1.9 billion, \$230 million above the previous year. The Budget message says that greater quantities of uranium ore are to be purchased as well as concentrates.

As new facilities come into use, it is expected, according to the message, that the unit cost of fissionable material and other nuclear matter will decline to the advantage of the Government. It is pointed out that efforts are to be made to bring about a greater participation by private interests in nuclear developments, especially the development of atomic power. "As such participation increases," the message says, "the share of power development costs financed by the Government, should decrease."

The President expresses interest in non-defense uses of atomic energy and says that the Atomic Energy Commission will use some of its money to construct a special reactor for developing methods for preserving food through irradiation. While such



development is of primary interest to the armed forces, it is likely that much of value to the entire preserved food industry will be discovered. And, of course, the basic research of the Commission will be carried forward in every field into which nuclear science can reach.

Less Money for Stockpiling

The appropriation requested for stockpiling is way down. Only $678 million is asked against $963 million requested last year and $1.4 billion a year earlier. Policies as to stockpiling have been controversial from the first. For one thing, it has appeared that industries at need can obtain supplies of essential materials setting aside for the time the national stockpile's priority. One school of thought on this insists that such a policy might lead to a situation in which the Government would be caught all unaware in some Pearl Harbor emergency; another insists that idle reserves interfere with needed industrial growth.

Then, too, statistics on the stockpile are confusing when given in terms of value because of wide fluctuations in prices. The Department of Agriculture is at work on plans under which surplus food stocks would be bartered to foreign countries for strategic materials, especially metals. This would bring down the Budget expenditures of new cash. The Budget message observes: "The high level of industrial activity has reduced the availability of some materials for stockpiling and required diversion of part of the new supply of a few materials to meet shortages in key industries. No new authority to incur obligations is recommended for the fiscal year 1957."

In the entire field of national defense it is doubtful if any category has been the subject of more intense controversy than that of mutual defense; that is, appropriations for countries of the Free World presumably pledged as potential allies in time of active warfare. A very substantial bloc both in and out of Congress regards huge sums spent overseas as wasted money, some going so far as to suggest funds actually are employed to build up potential enemy strength. Against these, another strong group takes the view that our own defense can scarcely be stronger than that of our allies and that our first line of defense is overseas!

Foreign Aid

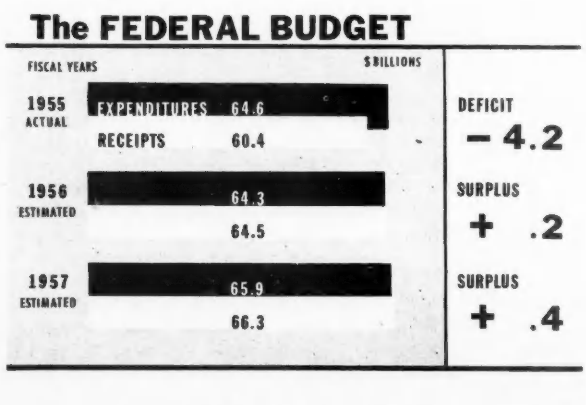
Certainly a year ago the indications were that overseas spending would be drastically reduced but the new Budget shows an increase. A figure of total foreign aid of $4.292 billion is recommended for 1957 compared with $4.190 last year and $4.219 for 1955. It is a foregone conclusion that this recommendation will be bitterly assailed in Congress. It is true that economic aid, most heavily attacked, has been scaled down somewhat. The sum of $1.2 is recommended for economic, technical and allied assistance to foreign countries compared with $1.726 last year and $1.927 billion for 1955.

The new figure for military assistance is set at $2.1 billion compared with $2.46 billion for 1956 and $2.29 for 1955. This, of course, is on top of the huge backlog of military assistance already built up. Efforts are to be made to use surplus agricultural products in this field too to make barter arrangement to reduce cash outgo.

Even though there is a substantial increase in the sums recommended for non-defense spending, the President insists that he does not depart from his principles of private enterprise, despite the very tangible requests for welfare state type of spending. He says: "We will progress fastest by relying on private initiative as the mainspring for economic growth and a better life for all. In encouraging economic growth, the Government should act on the basis of enabling private activity to expand and not on a basis of replacing private with public activity. My recommendations, therefore, are designed to encourage private initiative and to contribute toward or, in some cases, to undertake tasks which private enterprise cannot perform alone."

The Highway Program

The message emphasizes the desire of the President to leave to States and local communities, so far as feasible, much of the responsibility for performing essential services. A wish is expressed that many hidden subsidies might be done away with. "I firmly believe," the message says, "in the principle that Government services which give a special benefit to users should be financed by adequate charges paid by the users."



This brings up the vexing question of a gigantic highway program, certain again to be a source of sharp contention in the Congress. Last year the Budget proposal was for $790 million for the regular Federal aid highway program. For 1957 the figure is raised to $844 million. It will be recalled that the President sent a special highway message to Congress proposing a long-range program. Several implementing bills were offered in Congress. The President was accused, chiefly by Senator Byrd, of proposing financing outside the Budget which would in effect completely upset Budget calculations. Nothing was done.

This year the President is vague, saying: "I consider it essential that construction of the interstate system be fully authorized now as a single integrated program, in order that it may be accomplished over a period of approximately ten years with the greatest economy. I am confident that the expanded program can be soundly financed so as not to create budget deficits." Last year the President was equally confident that his program would not create deficits but every bill proposed called for the expenditure of vast sums of public money.

Thirty five thousand new housing units are recommended by the President and some liberalization of mortgage legislation. Organized labor already has attacked these recommendations, especially as to housing, as inadequate and it is to be expected that tremendous pressure will be brought to greatly increase public expenditures on these counts.

The Budget request for schools is $250 millions compared with $67 million last year, these to be annual outlays of Federal money. Labor places the needed figure at $12 billion and it is certain that earnest lobbies will be hard at work to inflate the school figure far above the Budget one with fair prospects of success in this election year.

Federal assistance to agriculture long has been a fixed Budget item. It has taken a great variety of forms over the years and now appears a new idea or at least a new name. The Soil Bank recommended by the President calls for an initial appropriation of only $400 million but many observers think this only opens a new door to the Federal safe out of which will flow billions if the plan is adopted by the Congress. The plan, in effect, takes large acreages out of production. It is not much different from plans of Henry Wallace when he was Secretary of Agriculture in the very heyday of the New Deal.

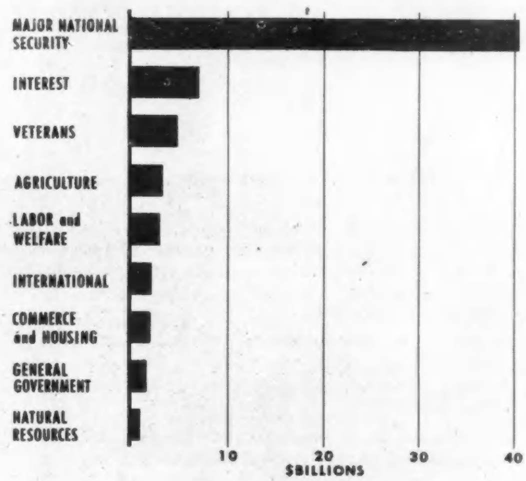
The total figures for agriculture are down, due to various causes including negotiation of barter of food surpluses to foreign countries. The total figure for the fiscal year 1957 is $3.364 billion compared with $3.376 million last year and $4.41 billion in 1955. The biggest item in the agricultural program is, of course, the price support and purchase operations. The figure for 1957 is $1.59 billion compared with $2 billion last year and $3.3 billion in 1955. True, the vicissitudes of the crop year, foreign markets and other factors may well alter this picture either for better or worse. Here, again, the election year may not be lost sight of. Already, the distant sound of farmers sharpening their scythes to mow down Members of Congress unwilling to grant almost unlimited farm subsidies can be heard!

Conspicuously absent from this Budget is any huge proposal for funds for public power. There is a $405 million item for flood control and multiple-purpose works but that is to carry on projects previously started. The only money proposed for new work here is $193 million including irrigation. In the last Truman year this item was over a billion dollars! Tennessee Valley Authority money continues to decline. For 1957 the sum asked is $206 million compared with $287 million last year and $386 in 1955.

The Budget for more than a generation has embodied items grown to gigantic size and carrying with their growth immunity from pruning. Veterans' benefits of many varieties call for $4.87 billion compared with $4.79 billion last year and $4.45 billion in 1955. Interest on the public debt and guaranteed on other governmental obligations will cost in 1957 $7.066 billion. This figure was $6.875 last year and $6.438 in 1955. The higher figure reflects a generally higher level of interest rates affecting the entire economy.

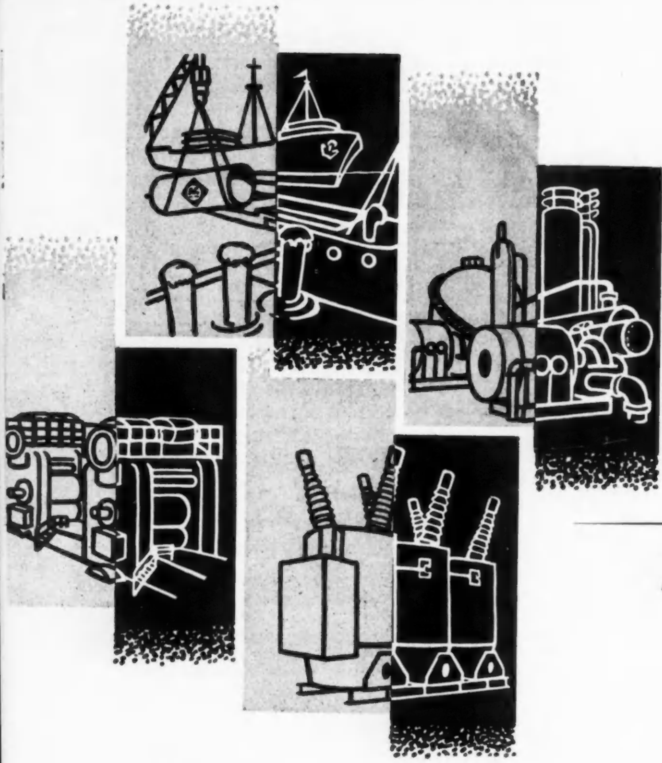
FEDERAL BUDGET – Fiscal Year 1957 Estimated

EXPENDITURES by function



The President evinces no special concern over the overhanging National Debt which, in the opinion of a block led by Senator Byrd, is a serious and continuing threat to the solvency of the American people. He refers to periods of strain at the Treasury when tax receipts are seasonably low and says: "The Treasury is currently operating within $1 billion of the temporary debt ceiling ($281 billion) and on cash balances that at some periods offer little flexibility in the management of Government finances. Even with a balanced budget in 1956 and 1957, seasonal borrowings in the first half of fiscal year 1957 will temporarily bring the debt above the $275 billion limit. Therefore a continuation of the legislation allowing a temporary increase during the year in the statutory debt limit is required."

It is to be expected pressure will be exerted in Congress not only at this session but in the next Congress to toss aside the debt limit completely and return to an avowed program of deficit financing with no trammels. This is predicated on the idea that the rising (*Please turn to page* 602)



TAKING THE PULSE OF BUSINESS

Reappraisal and Forecast for Business in 1956

By GEORGE W. MATHIS

In the January issue of the Magazine we canvassed the prospects for leading industries, dealing briefly with each major segment of the economy. The article presented here is in the nature of a sequel to the two-part story that has gone before and is designed to give the reader a balanced view of the economy. We feel such a story to be of overriding importance at this time, for recent press releases, carried in newspapers and broadcast, have tended to give too glowing an account of the state of business.

The Magazine takes a dim view of "pie in the sky" statements. Even as such industries as automotive and home-building were setting a dizzy pace back in 1955, we cited the flaws that were there for all to see. As an example, it was noted that the car-builders were disposing of a record number of vehicles by encouraging "crazy credit"—no money down and take several years to pay. Home-building, too, was well on the way to setting a new all-time record last year until the Government, which has no direct control over installment credit, tightened mortgage terms. Mild Federal curbs imposed on the home-buying field last summer were designed to end the system of no down-payment and 30 years to amortize. Sales of homes and cars thus flourished because the purchaser's financial responsibilty no longer was a primary consideration.

The Sudden Upsurge

In the foregoing we have provided but two of the most prominent examples of the methods employed to saturate markets. As a result, we go into 1956 with a considerable segment of the public debtridden—installment debt rose $5 billion and mortgage credit climbed $12 billion, both to all-time highs and two leading industries operating at lower levels, a condition that is of some significance to the overall economy.

As the new year dawned, the nation stood at a pinnacle of prosperity. Let us examine how we arrived at this lofty plateau and proceed from there to determine where we are going.

Between the second quarter of 1954—low point of the so-called recession—and the like quarter of 1955, output in this country rose by the immense total of $27.2 billion a year, or 7.6%. This largest and quickest recovery on record was "the real thing"—no war or scare-buying, nor were there any of the artificial shortages or controls to spur the economy.

There is no shortage of claimants to credit for the prosperous peak which America attained in 1955. Republican politicians insist that much of the credit must go to the Administration of President Eisenhower. They cite the confidence that a business man's Government has instilled in the economy; call attention to monetary policies applied to business and investment to keep the boom from degenerating into a bust; they note a policy of taxation that has encouraged business to expand, and point to the dwindling competition of Government with private enterprise.

New Regions

Business leaders, by and large, take no bows, although they are quick to assign credit to the Administration for its large-size contribution to the upturn. There is no question that the business community has derived a large measure of comfort from this Administration and has gone on to invest record sums in plant and equipment, confident that the long-term growth of the nation under a system of creative capitalism would justify such expenditures.

(*Please turn to page* 562)

Basic Economic Factors in 1956

FAVORABLE

CONFIDENCE—A fundamental plus factor is confidence that business and consumers feel in health and resilience of economy. Confidence rests on the broad base of a high standard of living, a fair share of the product for each contributor and realization that Government action, plus built-in stabilizers, should prevent any serious contraction in business. Although a decision by President Eisenhower not to run might disturb sentiment temporarily, the fact that alternative contestants also would have a constructive attitude should preclude any serious change in public psychology.

POPULATION SHIFTS—Development of whole new regions and the trend to suburban living have given rise to whole new markets. In addition, an explosive population, growing by 3 million yearly, assures a rising demand for goods of all kinds.

CONSUMER INCOME—Personal income has been in a steady uptrend in recent years, exerting a powerful effect on the overall economy. Wages still are pointing upward and current rate of income payments is well above the 1955 total of $303 billion. This, of course, is not an unmixed blessing, especially for those companies and industries that have large labor factors.

BUSINESS SPENDING—Industry plans record spending for plant and equipment in the current quarter. While this hectic pace is not likely to be maintained through the year, the sum should compare favorably with the $28.4 billion expended in 1955.

FEDERAL SPENDING—The President's budget message indicated Government spending would begin to turn upward in the second half of 1956, with total outlays for calendar year topping 1955. Biggest gain will be in military spending, emphasizing continental defense, guided missiles using atomic power and other new weapons. Spending for stockpiling and for conventional armament will decline. Increases in aid to education also are planned and should affect outlays late this year. On local government level, expenditures have been rising by almost $2 billion a year.

LABOR—Total labor force has crossed 70 million mark. Although unemployed total may rise slightly as result of growing labor force, this should not become a serious problem.

INNOVATIONS—The continuous process of uncovering new products, metals and commodities should continue in high gear. Our research labs should make new significant contributions, to be added to electronics, atomic energy and frozen food. The automation trend should attain new levels while productivity overall should show further gains, providing the necessary base for an ever higher standard of life.

PROFITS, DIVIDENDS—Corporate profits should be maintained around current peaks through the first half of 1956 but second half may level off. Dividends, by and large, represent conservative payouts and could rise beyond the 1955 peak.

FOREIGN TRADE—While only a relatively small portion of the overall gross product goes overseas, it means the difference between profit and loss for many. The combination of trade and aid along with the recovery in Europe and greater stability in Latin America points to another year of high-level trade.

UNFAVORABLE

CONSUMER SPENDING, DEBT—Public loosened its purse last year, spending an abnormal proportion of its income and, in addition, borrowing heavily for homes, cars, appliances and a multitude of other goods and services. Mortgage debt rose $12 billion and installment type $5 billion, both increases exceeding any previous year. From past experience, spending excesses do not continue long and consumers are apt to retrench after a spending bout of the 1955 dimension. A shift in demand by consumers to non-durable goods industries, where operations are well below capacity and capital investment needs smaller, could have impact on planned business outlays for expansion and equipment.

CARS, HOUSING—The whopping auto production and sales of 1955 are not likely to be duplicated this year. "Crazy credit" and drastic style changes kept the pot boiling last year. Nearly 8 million passenger cars were turned out and some 7,250,000 sold, both records. The industry should return to normalcy this year, which would entail lower output for steel, parts and rubber suppliers. The downturn in housing followed credit curbs. Relaxation of those curbs shortly after the turn of the year has raised hopes anew for a year comparable to 1955. Credit aside, many areas of the country have been saturated with new homes and "over-building" is a common plaint.

CREDIT RESTRICTION—Sharp business expansion last year relied heavily on credit. As activity approached the point of capacity and demand for goods grew apace, monetary authorities realized an inflationary cycle could easily develop unless steps were taken to control the boom. Tightened credit was a necessary step and its effects have been felt increasingly on a broad front. Dearth of available funds and high interest costs have worked a hardship for many companies. Tight credit also figures to defer projects of some local governments.

INVENTORY ACCUMULATION—Changes in the rate of inventory investment traditionally are vital factors in economic fluctuations. In fourth quarter of 1955, business was adding to inventory at a $6 billion annual rate. There is little chance this high rate of accumulation will be surpassed in 1956. In fact, business may, in the not distant future, find inventories have reached levels commensurate with sales. Cessation of inventory accumulation would pose problem of finding other outlets.

RISING COSTS—Many companies will feel the pinch of rising costs of labor and materials, especially those unable to compensate in part through heightened plant efficiency or through price boosts. The problem could be vexing to those with a high labor factor.

FARM—No segment of the economy had a smaller share in the upturn last year than the farmer. There is no ready answer to the nagging problem of agricultural surpluses. Since politics is a predominant factor here, a large measure of relief may be expected shortly, for this is an election year. However, no quick cure-all is in sight, despite the innumerable remedies proposed.

PRICES—A Government dedicated to prosperity without inflation has kept prices from getting out of hand. Still, prices have been moving higher in recent months, as one company after another has sought to regain some part of the higher costs of labor and material. More increases impend, a situation that could retard sales.

A major factor, often overlooked in assaying the "New Look" in business, is the development of new regions, the culmination of a variety of factors—World War II, which brought the West, with its natural resources and ports, to the fore; congestion of old settled areas, where the dearth of dynamism and opportunity sent adventurous Americans seeking greener pastures in the South and West; the need for plant dispersal, quickly spotted by an alert Government that encouraged industry to branch out. As a result, the deserts of the West are blooming and booming with aircraft sites and military installations, manufacture and mining developments; the distant reaches of the Upper Midwest have uncovered new rich sources of oil and iron ore, and the Northwest is bustling with new developments in lumber, farming, fishing, new manufacture and a growing chunk of defense work, a dynamic diversity spurred by brand-new oil pipelines, refineries and natural gas. And there is little indication that these new growth areas have burgeoned at the expense of older, more settled regions, as was the case in the loss of the New England textile industry to the Southland.

The other geographic phenomenon that takes rank with the regional development is the suburban trend, which has entailed the "desertion" of big-city apartment-dwellings for small-town one-family homes. This generation of Americans lives quite differently from its elders, who dwelt in crowded cities, preferably within a short distance of office or factory. This Mid-Twentieth Century Exodus was made possible by putting home-owning within reach of all but the jobless. With these homes went the creature comforts that provided a powerful stimulus for the makers of kitchen and laundry appliances, television sets and (suddenly become a necessity) the automobile—sometimes two. The trek to Suburbia has revolutionized the shopping practices of a substantial portion of the populace. Thus, the automobile of the suburban dweller made possible the upsurge in highway supermarkets and shopping centers. And the suburbanites often shunned the stores of the crowded cities, finally forcing the stores to come to them. Industrial plants moved out too, finding it economical to operate in these new areas now that personnel was available.

The New Golconda

The opening up of new regions and the development of suburbs are but the start of a trend that creates a strong prop for the economy, both for the near and long term. It has been and should continue to be a bonanza for the makers of automobiles, appliances and home-furnishings; the builders of homes, schools, houses of worship, community facilities, shopping centers and industrial plants; the builders of highways and manufacturers of highway equipment; the utilities, power and telephonic, along with their suppliers.

Viewed in this framework, it is no wonder that the electric utility industry, for one, broke all records in 1955. Electricity generated and sales volume increased sharply over 1954, the former by 15.5% and the latter by 16.6%. While the industry may not exceed that rate of advance in the year underway, another new peak is in prospect. The construction industry, for a second example, should surpass the all-time peak of $42 billion, registered in 1955, despite an estimated turndown in housing starts. Public works will turn up large increases in a number of categories. Star performer should be highways. Spending for road-building may increase as much as $500 million this year to reach an all-time peak of $4.6 billion. Substantial increases are slated for schools, municipal works and military expenditures. Another sharp rise in construction expenditures is slated for state and local public works. The St. Lawrence power project and related facilities account for a goodly share of the projected rise.

Mortgage Credit Eased Anew

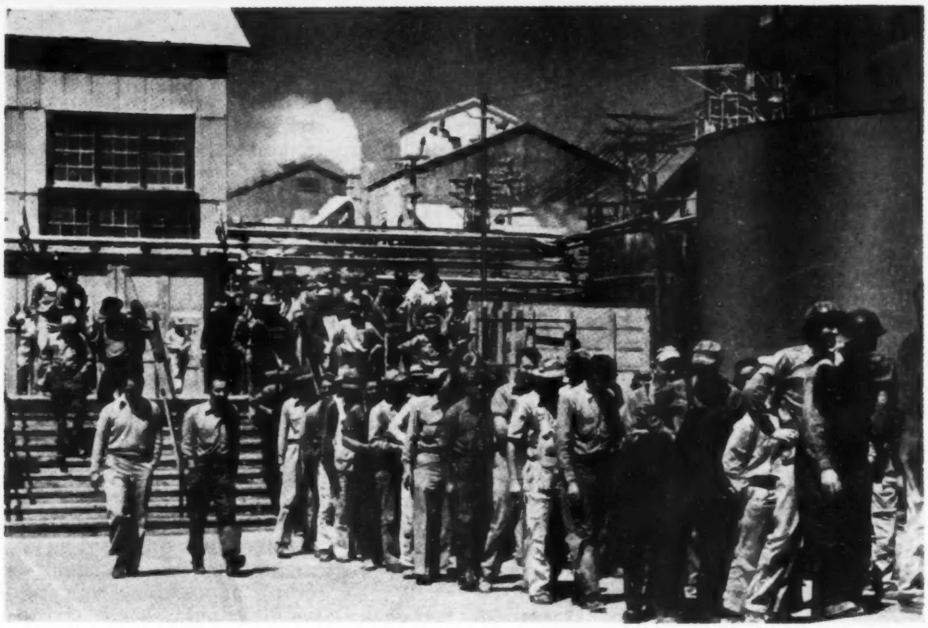
On January 17, Government agencies took action that changes the outlook for home-building. The Veterans Administration and the Federal Housing Administration announced that buyers of homes may once more have 30 years to pay off their mortgages. In July of 1955, those agencies, in a precautionary move against inflationary trends, had reduced the maximum permissible repayment period for F. H. A.-insured and V. A.-guaranteed loans to 25 years. This, of course, meant higher monthly payments.

This action had its effect. Rate of applications for Government assistance fell swiftly. The V. A. reported requests for appraisals of homes, the prelude to applying for mortgage guarantees, had dropped from an average of more than 65,000 monthly from February through May to a total of 41,800 in October. Applications to the F. H. A. declined more than 30,000 a month in the February to June period to only 19,200 in October.

Here is a prime example of the extent to which the Government is prepared to maintain economic balance, a program that is one of the factors that militate against any sharp recession. At the time of the July announcement curbing mortgage credit, the Government cited shortages in building materials as warning signs of inflationary pressures. Subsequently, Albert M. Cole, Housing and Home Finance Administrator, said the Government was prepared to change its policies if home starts fell below the target minimum of 1.2 million on an annual-rate basis. Since the demand for new homes stems largely from wage-earners in the younger age groupings, an easing of mortgage credit could push up 1956 housing starts beyond the 1.2 million originally estimated. This, however, would still be under the 1.3 million in 1955.

Rising Personal Income

The United States, long the richest market in the world, gets richer with the passing years. With each passing year there are more people at work earning more money. Our total labor force last year crossed the 70 million mark. This includes some 12 million wives—about 30% of all married women and twice the proportion in the job market before World War II. This helped to boost personal income last year to a record $303 billion. That figure should be topped in 1956. For one thing, the minimum hourly wage, affecting more than 2 million wage-earners, rises in March to $1 from 75 cents. This is certain to lead to demands from semi-skilled and skilled workers for a wage boost. In addition, labor unions are readying substantial demands that, on the basis of past performance, can only mean higher wages. Besides, Federal tax cuts, (*Please turn to page* 592)



Companies Facing Wage Renegotiation in 1956

By STANLEY DEVLIN

The year 1956 will be an important period of negotiations between labor and management for renewal of wage contracts. Contrasted with 1955, the emphasis this year will largely be on a demand for straight wage increases whereas last year was featured by a rash of union claims for "fringe benefits" of varying description. In any case, many companies, representing an assortment of industries, will be faced with higher costs, due to higher wages. To some extent, this can be offset through increased economies of operation but, on the whole, it is probably true that in most cases, companies involved will not be able to pass on all of their higher wage costs. This could mean some contraction in earnings, especially if total volume of production should decline.

In comparison with preceding years, 1955 was one of serenity between labor and management. The U. S. Bureau of Labor Statistics estimates that strikes involving 2,750,000 workers last year caused a loss of about 28 million man-days. This was about even with days lost through strikes in the previous year, and less than one-half of the 59.1 million days lost by 3.5 million workers in 1952.

On the whole, 1955 was a good year for labor. Contracts covering periods of three years, in the majority of instances, were signed with a number of ranking corporations in the automobile, farm equipment, glass and electrical manufacturing industries. Included in the latter group was the General Electric agreement running to 1960 and providing for wage increases in each year, a cost-of-living escalator clause, and pension and sick benefits. Included in the pact is a "reopening" clause allowing discussion in October, 1958 of a guaranteed annual wage. This is as far as GE would go regarding GAW.

The "big 3" of the auto industry, as a result of labor contracts signed last year with the UAW, are protected from strikes until mid-1958. Under the terms of the agreements, wage rates this Spring for close to one million auto workers are to go up a minimum of six cents an hour. An escalator clause provides for quarterly adjustment in wage rates based on the up or down swings in living costs. Unquestionably, the outstanding feature of last year's labor-management contract negotiations was the UAW's initiating its demand for a "guaranteed annual wage" to which the Ford Motor Company was the first to accede.

UAW Gets Limited GAW Plan

It was a busy year for the UAW. Following the signing of the Ford contract, the auto workers' representatives concluded bargaining with General Motors, Chrysler and other companies by accepting three year contracts covering approximately 968,000 workers. Corporations in this list included Allis-Chalmers Manufacturing Co., American Motors Corp., Electric Auto-Lite, Bendix Aviation, Briggs Manufacturing, Deere & Co., Caterpillar Tractor, Mack Trucks, Budd Co., Borg-Warner, Dana Corp., Kaiser Motors, and International Harvester.

In addition to providing for increased hourly wage rates, improved pensions and better fringe benefits, almost all of the contracts were patterned on that entered into with Ford Motor. Instead of the guaranteed annual wage, always a controversial and ambiguous term, however, the Ford pact embodied a modified version. This was a limited

guaranteed wage plan under which the company contributes five cents an hour for each employee, the objective being the creation of a trust fund to a maximum of $55 million. Upon the trust fund reaching this maximum benefit payments, based on credits acquired by employees by length of service, plus unemployment compensation, would be at a rate up to 65% of a worker's normal "take home" pay for 26 weeks, in the event of a "lay-off". Under the UAW contract with General Motors, the maximum for the lay-off trust fund is set at $150 million, and varies in other companies, of course, depending upon the number of employees on the payroll at the time of signing.

It is apparent that the United Steel Workers drove a better bargain with American Can and Continental Can last year than that negotiated in the auto industry by the UAW. What the steel workers union got from the two can manufacturers included an increase in hourly wage rates, improved pensions and supplemental unemployment insurance. The latter has a strong resemblance to the idea of a guaranteed annual wage inasmuch as it provides benefits which, together with state unemployment compensation, will give laid-off workers with a minimum of three years of service, payments equal to 65% of normal take-home pay for 52 weeks.

Still more variations of lay-off compensation were written into other labor contracts. Those signed by Pittsburgh Plate Glass Co., and Libbey-Owens-Ford call for company contributions of five cents an hour to the trust fund to provide for lay-off compensation. Other features give each employee a vested right once he has accumulated, in the fund, a $600 reserve. He can draw on this to supplement vacation pay and if incapacitated because of sickness or injury, or furloughed from his job, he is entitled to receive a maximum of $30 a week, or not more than 10% of the balance of his account at any one time. If discharged or gives up his employment he will be permitted to withdraw, or upon death while still employed, his estate will receive, any balance in his account.

If these supplementary unemployment compensation contracts negotiated with the two largest of the glass makers and the two front rank can manufacturers appear more liberal than those entered into by the auto builders the liberality is accounted for by the fact that employment in both the can and glass industries has been at a high level and lay-offs have been infrequent.

Some labor leaders, particularly those identified with UAW, spot flaws in the glass companies labor pact. They point out that the primary goal of a guaranteed annual wage plan should be to stimulate management to provide steady full-time employment, week by week, throughout the year. They state also that guarantee payments should be integrated with state unemployment compensation benefits. Both objectives they say, are defeated by the glass companies' contracts. On the other hand, there is a widening belief that enthusiasm among the rank and file members of various unions for lay-off plans such as that engineered by the UAW is simmering down. Many workers have become more concerned with taking the cash and letting the credit go. Evidence of this frame of mind was seen in the attitude of some of the Ford workers who cast their votes in opposition when details of the Ford supplemental unemployment compensation plan were laid before them. A lot of them, and the number has undoubtedly grown since, figure that the money being put into the "kitty" by companies signing the Ford type of unemployment compensation plan is money that can just as well go to the worker to defray current expenses or give him that extra margin of income for other purposes.

USW and the Steel Industry in 1956

This attitude, if it prevails in other unions slated to negotiate new contracts this year, may have a great influence on demands that are to be made upon employing corporations. It is yet to be seen just how harmonious negotiations will be. As the year opened, the general opinion was industry would have a quiet year, comparable to 1955, but there can be no certainty about that. The fact that the "guaranteed annual wage" plan as formulated by Walter Reuther is already passé indicates that some of the unions may ask for something different in the way of supplemental unemployment provisions this year. This will meet strong opposition from industry. For instance, Dave McDonald, head of the United Steel Workers, who secured last year's contracts with two leading can companies, rightfully jubilant over those deals, is quoted as saying that his powerful union—it has close to 2 million members in its ranks—is getting set to win a real guaranteed annual wage plan from the steel companies. Last year, the steel workers negotiated a one-year contract, expiring next June 30, which gave them pay increases averaging 15 cents an hour. They will be back again this year asking for another increase—just how much remains to be made seen—plus securing for its members vested rights in pensions. Such a plan would give the worker, upon discharge or quitting his job, the right to take with him any pension benefits that have accumulated for his account while in the employ of a particular company.

The plan, it is expected, will be patterned by the union on the Ford system. This makes a Ford 10-year man over 40 years of age, who leaves the company's employ, eligible for a monthly deferred vesting benefit payable from the pension fund when he reaches 65.

The United Steel Workers probably will encounter strong opposition to their demands. In all probability the greatest resistance by the steel industry will be against granting supplemental unemployment benefits, especially if the union insists upon layoff benefits for 52 weeks for workers with a minimum of three years seniority. The best the UAW was able to get last year was 26 weeks coverage. However, even a 26-week proposal by USW may be frowned upon by the steel industry.

The steel companies are expected to take the stand that it is impossible to schedule production in advance for an entire year because of the fluctuations in consumer demand. On the other hand, it is believed that the steelworkers' Mr. McDonald would regard getting the 52-week coverage as a great achievement. It does not require much imagination to realize a situation could develop that would be fraught with unfavorable possibilities. The steelworkers naturally will expect Mr. McDonald to do as much for them in the way of unemployment compensation benefits as he did for the union's members in the employ of the two major can manufacturing companies. It may turn out, however, that

demands for a 52-week supplemental unemployment benefit plan will be modified by the USW in return for other concessions, including a more liberal wage increase than the 15 cents an hour average granted in 1955.

Waning Enthusiasm for Modified GAW

As a matter of fact, there have been indications that enthusiasm among workers for SUB plans (supplemental unemployment benefits) has waned somewhat since the signing of 1955 labor contracts by various companies. Soon after the Ford pact was negotiated, The International Association of Machinists, whose membership is about as large as that of the UAW, advised those negotiating on behalf of its members to weigh all the facts before accepting the Ford or a similar plan. The Ford plan, in its opinion, seems to promise more than it will actually deliver. There was also some dissatisfaction in the ranks of skilled workers at various automobile plants because the UAW contracts entered into last year failed to win them bigger wage increases. Some of the leaders in this group said they would have preferred more of a wage boost in place of the promised SUB.

The discontent also was aggravated by the narrowing of the spread in the rates of pay for skilled and non-skilled workers. Although the 1955 pacts gave the skilled man a 15-cent increase on average in hourly pay, the skilled workers pointed out that the six cents an hour increase granted to non-skilled workers narrowed the spread between the two classes to 34% whereas before World War II wage rates for the skilled worker were more than twice that for the unskilled.

The unrest over wage differentials may be a tip-off to a wave of demands for higher wages of skilled and semi-skilled labor now that federal law has fixed $1.00 an hour as the minimum wage rate. It is probable that one of the first signs of this development will be witnessed in the textile industry. The Textile Workers Union has already announced it will move to get higher wages this spring for about 75,000 workers in northern cotton and rayon mills, and about 36,000 woolen-

(*Please turn to page* 592)

Some Outstanding 1955 Labor Gains

Industry	Wages	Fringe Benefits	Supplemental Unemployment Benefits
Automotive	6.2¢ improvement factor; Inequities 1.3¢ Triple Holiday Pay	Raised: Pensions — 4.5¢ Vacation — 0.2¢ Insurance — 1.2¢	5¢ man-hour to fund
Coal	$2 per day		
Electrical	General Electric—5-yr. contract annual raise 6¢ hour average.	Improved; Pensions-welfare; holiday pay & graduated vacation system	Can be reopened in 3 years for SUB talks.
Farm Equipment	6-11¢ improvement factor plus 1-11¢ for skilled groups.	Improved: Pensions-welfare	5¢ man-hour to fund
Oil, Gas, Chemical Atomic	10-15¢ range	Various in individual companies	—
Steel	11.5¢ plus .5¢ on increments — average 15¢	No change	—

Companies Scheduled to Negotiate New Labor Contracts in 1956

Company	Month	No. of Workers	Union
Lockheed Aircraft	Feb.	19,400	Machinists
Douglas Aircraft	Mar.	51,400	Machinists & UAW
North American	Mar.	32,800	UAW
Radio Corp. of America	May	17,000	AFL electrical
Boeing Airplane	May	65,000	Machinists
Southern Bell Telephone	May		Communication workers
U. S. Steel	June	171,000	USW
Bethlehem Steel	June	85,000	USW
Republic Steel	June	50,000	USW
Jones & Laughlin	June	29,600	USW
Inland Steel	June	13,500	USW
Bethlehem (shipbuilding)	July	12,000	Shipbuilding workers
N. Y. Shipbuilding	July	6,500	Boilermakers
Bituminous Ass'n.	Aug.	200,000	UMW*
Aluminum Co. of America	Aug.	54,000	Steel & aluminum workers
Kennecott Copper	Aug.	—	Mine, Mill & Smelter
Cudahy Packing	Aug.	8,000	Packinghouse workers**
Swift & Co.	Aug.	26,000	Packinghouse workers**
Firestone Tire & Rubber	Oct.	22,000	Rubber workers

*Soft coal miners are to receive an increase of 10 cents an hour on April 1, but contract signed in 1955 can be terminated by either side on or after next August 1.

**Contracts with the large meat packers expire September 1, but unions are permitted to file new demands any time after March 1. However, Packinghouse Workers and Meat Cutters unions are working on a merger of their two organizations which may delay reopening of wage negotiations until later this year.

Inside Washington

BEHIND THE POLITICAL SCENES

By "VERITAS"

LOUISIANA will be a proving ground for labor's drive against right-to-work statutes. Gov. Earl Long, just re-elected, is counted by the political action committees in their corner: he will, they say, permit a repeal of the right-to-work law to stand. No veto. The turn of political events in Louisiana has resulted in election of an unusually large number of labor-backed candidates to the Legislature. Management groups say the law may go off the books. They backed the wrong horses!

WASHINGTON SEES:

The balanced budget seems more likely to be a reality this year, when it depends upon business conditions rather than man-made design, than is assured under the planning for next year, say troubled Congressmen.

When Secretary George M. Humphrey huddled with members of the press two days in advance of public unveiling of the income-cut estimates for the fiscal year beginning July 1, he became plainly irritated when a newsman suggested the balance "is a precarious one." Call it precarious if you wish, the Cabinet member shot back, but there it is!

And there, indeed, it is: a $400,000,00 anticipated balance which depends for all but $50,000,000 of its velvet upon enactment of a postage rate bill which in two successive years has been pigeonholed by Congress! The Senate won't even schedule hearings until the House has acted, and the Democratic Leader in the lower branch predicts: "The bill won't pass."

The budget presumes in its anticipation of balance that everything favorable, and nothing unfavorable, will come to pass; that business will go steadily on, improve in fact, and that there will be no valleys to throw their shadows on the Treasury teller windows; that no emergencies, even minor ones, will rear their costly heads; that highway, school, health research and other programs will somehow be financed, without adequate preparation.

DEMOCRATS are reeling under the blow of an upset President Eisenhower delivered when he revised the military budget upward, not downward, as they had expected. It whooshed a campaign issue out of existence: scrimping on defense of the nation in order to claim a bookkeeping entry of budget balance. Veteran organizations, which were thumping for more military money and for foreign aid, forgot their immediate interest: pension benefits. Result was a passing over with promise of "study and report."

EMPLOYMENT climb has passed the 70-million worker mark for the first time in history and the Labor Department attributes it principally to women in the labor force. Social Security payments are accounting for many earlier retirements than in other years, providing payroll spots for newcomers. The percentage of elderly women still working, however, is on the increase, a fact which will be used by a Congressional bloc to sustain its contention that the SSA must be liberalized for women workers, for dependents. Average $30 monthly payments go to persons who averaged $71 a week.

CO-OPERATIVES are moving ahead on a broad front, increasing the likelihood that there will be additional pressure upon Congress to remove some of the tax encouragements to this type of business. But an estimated 12 million families now own them! In 1955 alone, 7,500 family-owners created 1,000 new credit unions; at year's end, there were 7.2 million subscribers to such unions and they held the huge sum of $2.25 billion. Housing, insurance, power distribution are moving in where merchandising dominated.

As We Go To Press

The President's budget message isn't endearing the Administration to newspaper publishers. They are being put on the spot in a manner setting them up for the blame if the budget isn't balanced, individual income taxes aren't cut, and a payment is not made in reduction of the national debt. The margin in favor of a balanced budget is a drop in a $65 billion bucket -- $400 million. Of this amount, $350 million is more projected than prospective: it is to come from increased postage rates under proposed schedules which have been offered to, and rejected by, Congress in two successive sessions.

Publishers, generally, have opposed increased rates. There have been some noteworthy exceptions: some metropolitan dailies of huge circulation have almost no mail delivery and they resent the repeated charge that the taxpayers subsidize the paper by less-than-cost handling. But publishers' associations say no true cost analysis ever has been made and the Post Office Department doesn't know what it costs to move a newspaper through channels. The publications have second-class mailing which, publishers say, is a term of more significance than its title suggests. Also, newspapers are delivered to the Post Office, not picked up by Government trucks, and they are segregated by city and zone of destination.

The publishers will oppose the rate increase again this year in spite of the veiled threat in the budget message. The major part of the hoped-for $350 million would come from an increase to 4 cents in the initial ounce rate on first-class mail -- letters, etc. The reception a similar suggestion received last year would seem to be the best guaranty of another prompt rejection by Congress. The Department suggests air mail be boosted, to bring in $14 million more. That could very well go through. Third-class is slated for a $73 million rise. The rest would come from newspapers and other publications.

On the eve of presentation for the increases, Postmaster General Arthur E. Summerfield reviewed 1955 performances of his office and claimed 73 major service improvements. Of these, he said, 24 directly benefited the publishing business. The record laid out by the Cabinet member is an imposing one. In addition to aids to the newspaper and periodical business, there are many steps, individually not of great importance but in the aggregate of real value. They involve simplifications and eliminations of red tape.

Determined warfare has been declared against unlawful corporate mergers. The White House and Capitol Hill are in an apparent race for credit. The President has asked Congress to provide more money to the Department of Justice and to the Federal Trade Commission in an implied promise of greater vigilance in enforcement of existing laws. The House Judiciary Committee has held hearings on three bills, the cumulative effect of which would be to put the Government on notice before corporations merge. If the preliminary detail indicates possible violation, the Government would have the power, under the new bills, to sue for injunctive process.

Rep. Emanuel Celler, chairman of the committee, promises to speed the bills to enactment. He promised, too, that he would urge Congress to increase the enforcement staffs of the two agencies. But, he asserted, they have not used existing laws as fully as they should. Rep. Wright Patman of Texas, a noted trust-buster, went along on that charge. John W. Gwynne, chairman of the Federal Trade Commission, has indorsed the legislation. He also likes the idea of an enlarged staff of accountants and attorneys to ferret out "bad" mergers. The budget message proposes an additional $150,000 for Justice, $1,237,500 more for FTC.

The hassle over broadening coverage of the minimum wage law is on again and it begins to look like a repeat of last year's performance. Unions are demanding that more low-wage workers be brought in, and they'll make it a campaign

issue regardless of which way the contest goes. Employers in some trades say it will mean fewer jobs. Retailers are the principal opponents. They are most concerned about the overtime pay provisions.

The President touched lightly on the subject. He said: "I recommend that the Congress extend the protection of the minimum wage law to additional workers. The facilities of the Executive Branch will be available to assist the Congress in finding ways of achieving this goal." Thus, the President asks, as he did last year, that Congress "find ways." Only last time he used the term "study." When the broadening bill was before the Senate Labor Committee last summer, union spokesmen claimed Ike's indorsement for immediate broadening. Government witnesses pointed out the President had suggested "study." The bill then died in committee.

The Democratic National Committee is busy denying that the Republican party dominates the interest of all the big advertising agencies and that the Demmies are having trouble finding an agency to handle their 1956 campaign promotion. There is no organized boycott or anything of the sort along Madison Avenue, the committee press section assures. But, it was added: "We don't have it as simple as the Republicans have it, in this particular."

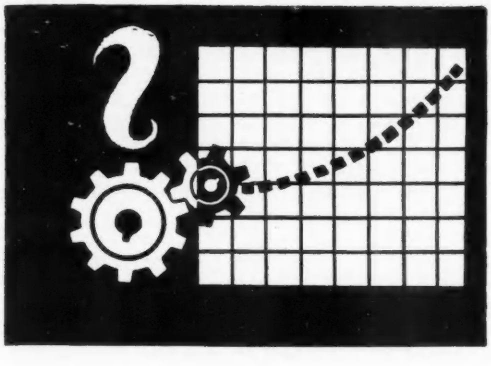
No client with $5 million for radio-TV alone is likely to be put in the position of drafting an ad agency into service. And Chairman Paul Butler of the Democratic organization assured: "There are many agencies large enough, experienced enough, adequately staffed, and 'interested in the product'." Butler will do the picking personally. He's looking for specialists in the broadcast medium: a nationwide newspaper ad coverage is beyond the financial reach of either party. If Eisenhower runs, the radio-TV budget of both parties will skyrocket.

Congress has before it the Administration's proposal for a five-year experimental program to provide flood insurance for residential and business property. It's a $3 billion Federal-state-private program, Federally-administered, which makes indemnity possible in states which come in on the program. Beneficiaries would pay at least 60% of the premium. Rates would be determined by the Housing and Home Finance Administration. Federal and state governments would contribute not more than 20%, each, of the premium cost.

Other features of the White House plan: Maximum coverage for anyone insured would be $250,000. Each policy would have a $300-deductible clause, and the insured would participate to the extent of 10% of the remainder of any claim over the $300 deduction. Washington would pay for administration and contracts would be issued and serviced through private insurance companies. An item of $100 million would be created to re-insure private companies against loss for privately-written insurance meeting the purposes of the Act.

Of business interest, but not considered likely to be counted in the performances of the current session of Congress, is a legislative proposal to provide business stimulus to chronically depressed sections. The Administration proposes to set up a $50 million Federal revolving loan fund for building or remodeling plants that will attract new industries into these economically stricken areas. One-fourth of the total loan would come from the Government. The balance would come through state or local underwriting or commercial credit.

Pressure of more immediate matters seems likely to crowd off the calendar the Fulbright Bill to set up protection against loss of foreign investments by reason of barriers to conversion of foreign money to dollars. It's on the Senate Banking and Currency Committee calendar, likely to remain. Proposed is an Export Guaranty Corp., to step in when indemnity against losses through foreign political action is not commercially available. Objective is to encourage more foreign trade by lessening the risk. The exporter would assume 15% of the chance, and the Government corporation would insure dollar repayments up to 85%. The draft under consideration has a premium-fixing effect: if the Government feels rates for this type of coverage are too high, the new corporation may step in with a better offer.



MORE FOREIGN AID: IS IT JUSTIFIED?

By V. L. HOROTH

The remark that the Kremlin "may have hit at long last on a way of bankrupting the United States" may have been made as a jest. Unfortunately it contains more than grain of truth. Six months ago the Administration was getting ready for a gradual windup of foreign aid. It was reported that the President would ask for a smaller appropriation for the 1957 fiscal year. But a rise of a few degrees in the temperature of the cold war since Geneva and some successes chalked up by the Soviets in their trade and credit offensives in South Asia and the Near East seem to have completely upset Washington and reversed its attitude. According to the latest plans, embodied in the President's budget message, foreign aid is to be not only expanded, but placed on a long-range 10-year basis.

All this has naturally upset many Congressmen and taxpayers. They are asking how serious can the Soviet trade drive be. They question the wisdom of perpetual permanent hand-outs to our allies, or, as old Rome called them, "our clients". They fear that foreign aid may become a built-in instrument of our policy on which our diplomats come to rely too much in signing up foreign countries for our side.

Achievements and Wasted Efforts

The cost to the taxpayer of U. S. military and economic aid during the first postwar decade—from July 1945 to June 1955—aggregated something like $51 billion. Much of this huge sum was indeed well spent and invested. As Marshall Aid, it was instrumental in saving Western Europe from being overrun by the communists, and it has also made possible the current prosperity on the continent. In underdeveloped countries, such as Bolivia or Pakistan, U. S. economic aid has performed the function of private investment capital in building transportation facilities and bringing in new industries, projects which under the political and social conditions existing in such countries private capital would have hesitated to undertake. In still other countries, such as South Korea, Vietnam, Nationalist China, and even Turkey and Greece, our military and economic aid has prevented political and economic collapse. This is because they could not have maintained their disproportionately heavy military establishments in the face of persistent communist threats.

On the other hand, there is no getting away from the fact that some of the expenditures under the category of foreign aid have been of dubious value and that the load on the U. S. taxpayer could have been lightened. Some of our aid, as in the Philippines and Greece, was spent on non-essential imports and luxury apartment buildings. Some went to build up foreign industries, which, being equipped with modern machinery, turned out to be most successful competitors of our own industries.

Many foreign countries were in no hurry to get on their feet as long as Uncle Sam was doling out aid. It is doubtful that in Western Europe some of the countries could have afforded planned economies and some of the welfare state extravagances if they had had to do without Marshal Aid. Only when Marshall Aid began to taper off, did these countries deflate and adopt sound money policies.

But Dollar Flow Goes On

Subsequently, Marshall Aid became the Mutual Security Program. New ways were found to keep the flow of dollars from shrinking, such as the Point Four Program and offshore manufacture of military hardware. The result is that overseas aid expenditures have remained at well over the $4 billion mark, with military hardware and farm surpluses accounting for about two-thirds of the total.

Timely interventions have saved the U.S. taxpayer even greater expenses, however. In 1953, for example, the United States was approached to underwrite the convertibility of the pound sterling. Several hundred million dollars was asked for, but the U. S. Treasury apparently put its foot down. It is doubtful that any contribution would have brought pound sterling convertibility any nearer. Meanwhile steady progress toward convertibility of various other European currencies is being made without the U. S. taxpayer's financial aid.

In 1954, the precarious position of Japan found some members of the Administration advocating a "Marshall Plan for Asia". But Congress kept its

head. There was nothing else for Japan to do but help herself. To the surprise of all, she did: sound monetary policies were adopted, unnecessary internal spending curtailed, and export industries streamlined with the aid of available domestic capital and U. S. aid. Today Japan is probably in a sounder position than she would have been if aided by a "Marshall Plan for Asia".

Latest Proposals for Stepped-up Foreign Spending

In view of the foregoing experience, both Congress and U.S. taxpayers should take a hard look at the latest proposals for the extension of economic aid.

The Administration is asking for two things. First, it wants Congress to appropriate \$4.9 billion for the fiscal year '57 for straight military and economic aid—i.e., excluding the money to run the Export-Import Bank, the International Finance Corporation, and foreign information services. This compares with \$2.7 billion appropriated by Congress in each of the last two fiscal years. The appropriation would keep the flow of foreign aid around the \$4¼ billion level through fiscal year 1957. Second, the President is asking that foreign aid be placed on a long-range basis as a part of a "dynamic and flexible foreign policy". The latter request was inspired by the fact that the cold war is shifting into the economic arena.

Many Cabinet members, such as Mr. Harold E. Stassen, the former Foreign Operations Administrator, are advocating the long-range extension of aid as extremely good business. But the growing opposition in Congress is already obvious. The Eisenhower Administration may get more money for the 1957 fiscal year, but Congress may not commit itself beyond that, any more than it did in '48 when the Truman Administration asked for the full amount of Marshall Aid.

One project to which the Administration has already committed itself to contribute over the next ten years or so is the High Dam on the Nile. One of the most grandiose projects ever conceived, the building of the High Dam and the irrigation canals which are to extend Egypt's irrigated area by about 50 per cent, would cost about \$1.5 billion, but a part of it would be financed by the World Bank and the British. The building of the High Dam might make for peace in the Near East.

A Challenge from Moscow

As was already pointed out, two developments have evidently caused the Administration to change its attitude on foreign spending. One is a turn for the worse in the cold war which is becoming more and more an economic contest between East and West. On top of that, the Russians have made some clever opening moves in the countries of South Asia. They are also striving to encourage neutralism in the Arab countries of the Middle East.

Matters were brought to a head by the South Asia trip of Russia's "Gold Dust Twins", Bulganin and Khrushchev, whose clowning may have been the subject of many a butt in our press, but who apparently were successful in drumming up considerable business and getting trade treaties signed. Actually, however, there is nothing new about the Soviet trade offensive. The Russian offer to build steelworks in India was acted on long before the visit of the Soviet leaders. Similarly, the Hungarians have been busy building two power plants in Egypt. The Poles have been delivering railway equipment to India, while the Czechs are building plants in Afghanistan and the East Germans have been peddling heavy capital equipment and munitions all over the Near East, from Egypt to Pakistan. Not only is the range of goods offered by the Communist countries remarkably wide, but it looks as if the sales may be stepped up if the Russians succeed in carrying out their latest Five-Year Plan which calls for the doubling of electric power and petroleum production and an increase of almost 50 per cent in Russia's steel making capacity.

Also coming as somewhat of a shock for the West, and especially for the British who thought themselves well entrenched in the South Asia area, is the discovery that the locomotives, diesel engines, electrical engineering products and factory equipment, and even watches and typewriters, sold by the Russians and their satellites are quite at par technically with Western products.

Russians Are Not Giving Away Something for Nothing

The emergence of the Iron Curtain countries as exporters of goods sought by the underdeveloped countries may require—to use the famous words of Mr. Dulles — an "agonizing reappraisal" of Communist trade tactics and our own trade relations with countries that deal with the Communists. But it would be foolish to get panicked into a long-range give-away spree which the taxpayer ultimately must finance.

There is no need to (*Please turn to page* 597)

U.S. Foreign Aid, Grants and Credits: 1950-1957
(In Millions of dollars)

Fiscal Years	Military Grants		Other (Economic) Grants & Credits		Total Grants & Credits	
	Appropriated	Spent	Appropriated	Spent	Appropriated	Spent
1950	814	1,364	3,778	3,417	4,592	4,781
1951	5,678	1,132	2,262	7,940	7,940	4,408
1952	5,814	1,789	1,515	7,329	7,329	4,610
1953	4,220	4,317	1,782	6,002	6,002	6,358
1954	3,230	3,521	1,302	4,532	4,532	5,232
1955	1,193	2,543	1,589	2,782	2,782	4,470
1956[a]	1,028	2,500	1,681	2,709	2,709	4,400
Total	21,977	17,166	13,909	17,093	35,886	34,259
1957[b]	3,000	2,500	1,860	1,800	4,860	4,300

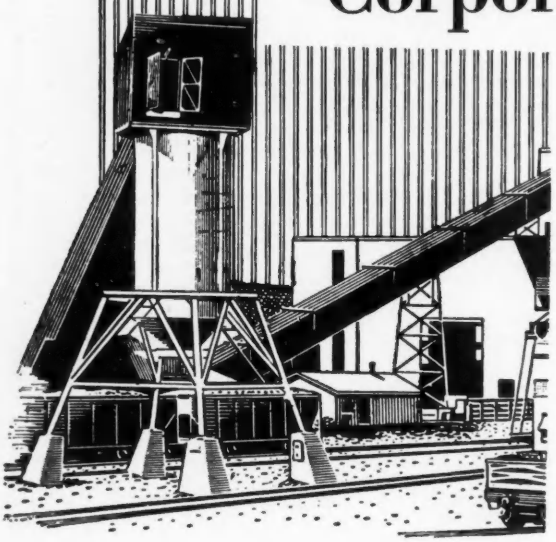
[a]—anticipated [b]—projected

U. S. Foreign Grants and Credits, Military and Others (By Major Countries) in Fiscal Years 1953-55

(Millions of dollars)

Fiscal Years:	Military Grants 1953	1954	1955	Other (Eco.) Grants 1953	1954	1955	Credits Extended, Repaid (—) 1953	1954	1955
WESTERN EUROPE									
Yugoslavia				106	42	69	2	—	— 2
Italy & Trieste				182	119	67	— 28	— 15	— 22
Spain				—	1	34	25	12	— 4
Austria				50	18	13	— 4	2	— 6
Belgium				7	5	4	— 5	— 10	— 7
Denmark				9	4	—	— 1	— 1	— 2
Germany				82	94	41	— 63	— 9	— 8
Netherlands				44	23	—	— 26	— 11	— 17
Norway				15	18	4	5	—	— 4
Others				64	29	15	1	3	99
Sub-total	n.a.	n.a.	n.a.	556	247	127	— 94	— 29	27
France (Indochina war exp.)				272	277	507	19	—125	— 84
Great Britain (special)				383	192	164	— 52	— 48	— 58
Total	3,176	2,362	1,570	1,213	824	918	—126	—200	—116
EAST EUROPE, NEAR EAST									
Greece				103	60	45	— 6	— 6	— 6
Turkey				59	39	50	— 5	— 4	— 3
Other East Europe				—	14	10	— 4	— 4	— 5
Iran				15	68	56	—	—	30
Israel				60	59	30	13	1	5
Other Near East				27	33	79	35	43	42
Total	314	382	286	255	274	270	33	30	63
ASIA & PACIFIC									
India				28	30	64	18	—	—
Pakistan				4	83	30	15	—	—
Other South Asia				—	1	4	5	2	2
China-Taiwan				96	77	77	— 2	— 1	— 1
Indochina				24	37	216	—	—	—
Indonesia				4	4	5	16	16	9
Japan				20	3	7	— 32	79	— 29
Korea				189	152	207	—	—	—
Philippines				26	20	16	2	— 11	— 1
Other Far East				18	10	13	— 1	— 1	2
Total	770	714	623	409	417	640	20	85	— 17
LATIN AMERICA									
Brazil				3	2	3	129	204	56
Mexico				2	5	2	33	15	12
Other Latin America				16	23	43	13	— 3	— 16
Unspecified	35	20	20	36	42	66	6	— 6	—
Total				57	72	115	181	210	52
Grand Total	4,317	3,521	2,543	1,934	1,587	1,944	108	125	— 18

Source: Survey of Current Business, Oct. '55. n.a.—not available.



Year-End Corporate Statements

—*and* *First Quarter Trends*

PART I

By WARD GATES

When 1955 drew to a close there ended one of the greatest years in the annals of the American economy. The note of caution heard in some circles at the beginning faded completely as business continued in an uptrend from the first quarter to and including the final three months.

With the exception of agriculture, practically every segment of the economy scaled new heights in production, employment and personal income. The latter rose from $292.2 billion in January, 1955, to a peak of $311.4 billion by the end of last November. It probably held at that level, if it did not edge still higher, in the final month of the year. While two of the highlights of 1955 were a record output by the automobile builders, making it the biggest year in that industry's history, and the inability of the steel industry, despite increased productive capacity, to meet the demand for its products, new record highs were also set by the paper, chemical, petroleum and other industries. Even one or two of the few chronically depressed industries showed improvement somewhere along the line.

Although all the figures for the year are not yet in, it is estimated national production, at a record annual rate of $391.5 billion for the third quarter was duplicated in the final three months, bringing the total for the year to about $386 billion, exceeding 1954 by approximately $28 billion. As measured by the Federal Reserve Board's preliminary figures, the nation's industrial production increased from 131 for January to an historic high of 144 in November and maintained this level through December, establishing a gain of 11% over 1954 and 39% above the 1947-49 average.

The year was also highlighted by record corporation earnings, before and after taxes. The new peak in net profits in 1955, after taxes, is estimated at close to $22.5 billion, an increase of approximately $17 billion, or 31% over 1954 corporation profits, after taxes, resulting in an unprecedented flow of cash dividends either in increased quarterly payments or liberal year-end extras to American corporation shareowners.

Because of the time lapse between the close of any year and the release of many corporations' annual reports, the number of companies listed in the accompanying tabulation is necessarily limited. A more comprehensive study of 1955 year-end statements will appear in our next issue in which Part II of our annual feature "Year-End Corporate Statements" will be presented. It will be noted from a study of the accompanying table many companies in the list showed progressively higher earnings in each quarter of their last calendar or fiscal year, as the case might be, while many others ended their final three months showing net earnings above any of the three previous quarters. Indications are that earnings records for a number of these companies will be duplicated in the current quarter.

Herewith are brief but concise comments on the showings of several companies making up the accompanying list, their selection for these comments being made on the basis of the broad investment interest in them:

FIRESTONE TIRE & RUBBER CO. — Several new records were established by Firestone during its fiscal year ended last October 31. Net sales at a new peak of $1.114 billion enabled the company to show record net income of $55.3 million, equal to $6.82 per common share, as compared with the previous year's net of $40.5 million, or $5.02 a

share. In each quarter of fiscal 1955 earnings were progressively higher, increasing from $1.31 a share for the three months ended January 31 to $2.19 a share for the final quarter, the latter result reflecting heavy buying of original equipment by the automobile industry and late summer and early fall demand in the replacement market in which Firestone is strongly represented through its thousands of independent tire dealers.

Although current cut-backs in car production by the auto builders can be expected to reduce original tire demand from the high 1955 level, net earnings for the quarter ended January 31, this year, are expected to make a favorable comparison with those of a year ago with the outlook for future quarters being particularly promising because of the anticipated increased demand for replacement tires for the substantially greater number of cars now on the road, and Firestone's expanding volume in foam rubber products, chemicals and plastics.

Last year, the company set aside from current earnings a little more than $32 million for depreciation while plant and equipment additions and improvements amounted to $55.7 million. Included in this latter sum was $14.1 million paid to the Government for the purchase of synthetic rubber plants at Akron, Ohio, and Lake Charles, Louisiana, the output of which, together with that of the Liberian plantations, makes Firestone the world's largest rubber producer. At its current price of 73½, the stock on an indicated dividend basis of $2 a share, and yielding a return of 2.7%, is worth retaining for its growth potentials and an eventual increase in dividends from the present conservative rate.

MARATHON CORPORATION — Several outstanding features were embodied in the report for the fiscal year ended last October 31. One was the the 14.7% gain in net sales of $135.1 million, a new all-time peak, rising by $17.3 million over the previous high, set in 1954. Of equal interest was the increase in net earnings to 6.8% of net sales from 6.4% of fiscal 1954 net sales, but still more of a feature was the 22.8% gain in net earnings last year to $9.1 million from the preceding year's $7.4 million. After allowing for dividends paid on the preferred stock, which was redeemed last May, earnings for the common stock in fiscal 1955 were equal to $2.51 a share, a gain of 24.9% over the $2.01 per share in 1954.

Contributors to these various gains have been the exercise of careful control over expenses, revamping the sales structure to effect broader contacts with customers, and capital expenditures last year of $11.2 million for new facilities and modernization at its various plants. As a result product lines were further diversified and important gains were made in manufacturing efficiencies, the latter accounting in part for the earnings improvement from 49 cents a share for the first quarter to 71 cents in the third and 70 cents in the final quarter.

New facilities for 1956 have been planned to increase manufacture and distribution of northern household products and to meet foreseeable requirements of an expanding business, the company has created as a subsidiary, the Marathon Southern Corp., to carry out a long-range expansion program being considered in the southern states. The stock, currently selling at 36 (*Please turn to page* 592)

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

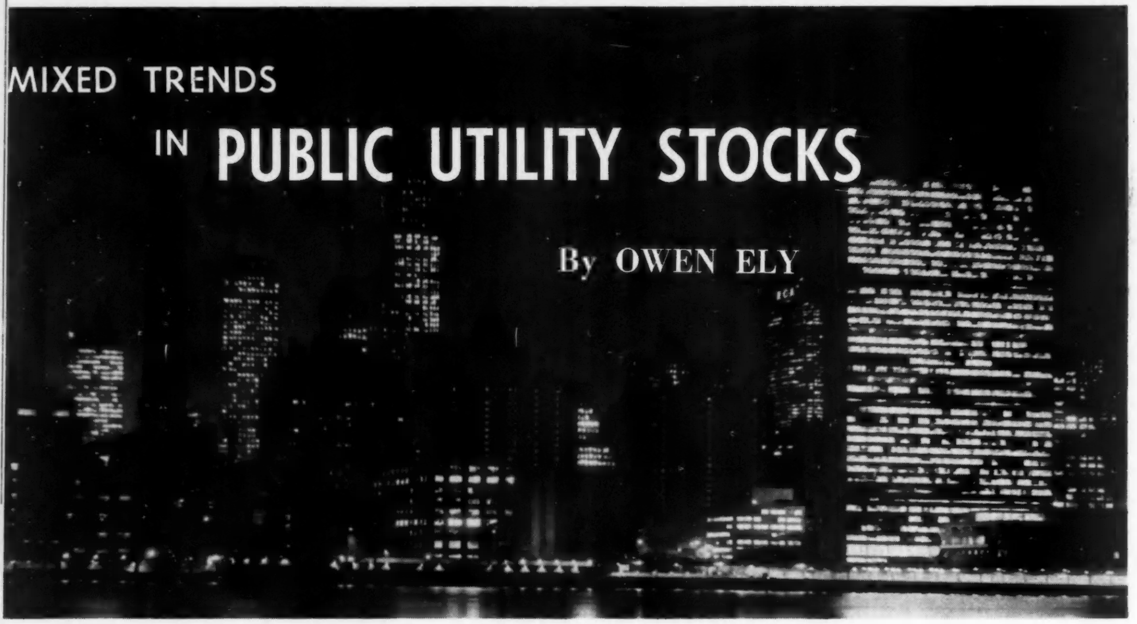
	Net Sales 1954 (Millions)	Net Sales 1955 (Millions)	Net Profit Margin 1954 %	Net Profit Margin 1955 %	Net Per Share 1954	Net Per Share 1955	Net Per Quarter 1955 1st	2nd	3rd	4th
Allied Chemical & Dye	$530.7	$ 628.5	8.1 %	8.2 %	$ 4.56	$ 5.45	$ 1.23	$ 1.54	$ 1.34	$ 1.34
Bendix Aviation	607.7	567.2	4.2	4.5	5.62	5.66	1.12	1.40	1.49	1.65
Celotex Corp.	62.2	71.1	5.1	7.1	3.35	5.49	.78	1.19	1.54	1.98
Chain Belt	39.5	45.2	6.0	7.6	3.87	5.66	.86	1.68	1.36	1.76
Dayton Rubber	55.9	69.1	2.0	3.3	1.80	3.77	.67	.89	.83	1.38
Diamond Alkali	93.5	110.2	5.9	7.6	2.14	3.38	.66	1.00	.92	.80
Douglas Aircraft	915.2	867.0	3.9	3.2	9.80	7.66	1.93	1.78	2.63	1.32
Dresser Industries	157.0	164.7	6.1	6.2	5.05	5.15	.93	1.30	1.39	1.55
Firestone Tire & Rubber	916.0	1,114.8	4.4	4.9	5.02	6.82	1.31	1.46	1.88	2.19
General Shoe	150.0	167.8	3.1	3.1	4.19	4.62	1.09	1.01	.75	1.78
Heyden Chemical	17.3	24.7	4.0	6.2	.20	1.00	.24	.29	.15	.32
Lee Rubber & Tire	39.3	45.9	3.5	3.8	1.66	2.06	.37	.40	.57	.72
Lukens Steel	74.9	79.3	2.6	2.1	6.34	5.44	.32[1]	.92[1]	1.75[1]	2.45[2]
Marathon Corp.	117.8	135.1	6.3	6.7	2.01	2.51	.49	.61	.71	.70
Minneapolis Moline Co.	72.2	77.4	5.7	9.4	(d) .67	.14	(d) 1.25	.16	.29	.94
Rayonier, Inc.	86.9	142.5	2.1	11.1	2.05	2.86	.65	.77	.76	.69
Stevens (J. P.) & Co.	227.5	321.1	1.2	2.6	.90	2.15	.46	.58	.42	.70
West Virginia Pulp & Paper	164.8	176.2	7.9	8.9	2.57	3.08	.58	.65	.97	.88
York Corp.	93.2	82.7	3.1	2.9	2.12	1.72	(d) .38	.34	1.14	.61

(d)—Deficit.

[1]—12 weeks.
[2]—16 weeks.

MIXED TRENDS IN PUBLIC UTILITY STOCKS

By OWEN ELY



The utility stocks have been in the market "doldrums" recently despite the excellent outlook for the industry and continued increases in earnings and dividends. The Dow Utility Average had declined recently to 63.38 compared with the December 6th high of 66.10, a dip of about 5%. Last year's low was 61.39, so that the recent position of the average was a little nearer the low than the high. Moreover, if allowance be made for the 6% average increase in dividend payments in the past year, the electric utilities are selling below a year ago—that is, the best stocks now yield about 4.60% as compared with 4.55% then.

The market's loss of interest in utilities is generally blamed on two factors—rising money rates and politics. With yields on preferred stocks rising, some institutions and private investors interested only in yields may have diverted some of their purchases to the more secure senior securities. A third factor, not generally appreciated perhaps, is the market's increased partiality for the "growth" utilities—especially those of Texas and Florida, where regulation is generally favorable. These stocks now sell at relatively high multiples of earnings and at low yields, and the demand for these issues has tended to detract from the interest in run-of-the-mill utility issues which fail to show steady gains in earnings.

However, politics have perhaps played a major role. The recent decline may have been due in part to uncertainties over the President's plans to run again, and the possibility that a Democratic president might be elected next fall. Unfortunately the previous Democratic administrations were regarded as anti-utility, or at least strongly pro-public power, and Washington was able to influence at least some of the state commissions with their important rate-regulating powers. As a recent instance of the possible effect of politics, the actions of Robert Moses as head of the New York Power Authority have apparently disturbed stockholders in the large electric utilities in upstate New York. This is illustrated by the market action of Niagara Mohawk Power and New York State Electric & Gas. Earlier in the year the former sold as high as 36¼ or a 4.4% yield basis. Despite an increase in the dividend rate to $1.80, it has been selling recently around 32-3 or about a 5.5% basis.

Democrats in and out of Congress, moreover, have continued to make a great uproar over "Dixon-Yates", Hell's Canyon, Niagara Falls, etc., with resulting adverse headlines. The Democrats should have been content when the City of Memphis agreed to build a steam plant and the Administration cancelled the AEC contract with Middle South Utilities and Southern Company to build a plant; but public power die-hards then claimed that a "crime" had been committed because an expert had been consulted by both the Government and the utility companies, and they are now fighting in the courts to prevent the Government's reimbursing the utilities for about $3.5 million already expended on preliminary construction.

Aspects of Public Power

In the northwest, Idaho Power was given the green light in November to go ahead with the construction of three dams near Hell's Canyon, replacing the much more expensive project which had been sponsored by the public power interests. Despite the FPC decision and the fact that a contract has now been let for the first dam by Idaho Power, the public power crowd are still fighting in the courts to have the FPC decision set aside. They claim that the three private dams won't fit into the "master plan" for developing the Columbia River. Apparently, the possibility of saving perhaps $200 million on construction costs means little to them.

Further out on the coast, public power proponents seem to be losing ground. The President's partnership proposal is being incorporated in a number of important projects where private utilities, the local public utility districts, large municipalities with power plants, and the Federal Government through

its control of dam sites, are teaming up together to develop important hydro projects. Moreover, in a recent local election in Stephens County, Washington, 71% of the ballots were voted in favor of Washington Water Power and against the local Public Utility District, the company being authorized to buy out the competing PUD's property instead of vice versa.

While the Federal Government is completing the construction of several large dams in the northwest, for some time Congress has been increasingly reluctant to appropriate large sums for power development, and future projects will be handled largely on the partnership plan—if the Democrats do not regain control. An important new method of financing has been proposed for several of these projects—that the local utilities finance and build the new hydro plants so that the Government will have no development expense, and then receive the power free for fifty years, at which time the whole plant will become the property of the Government. The plant value would be amortized by the utilities through the revenues obtained from sale of the power, and at the end of the 50-year period the Government would have a valuable plant in addition to the original site. But even such a plan seems unlikely to satisfy public power proponents, who wish to see the Federal Government "whole hog or none" in hydro development.

Growth of Electric Power

The electric utilities in the meantime continue to be the most consistent of our "growth" industries. Kilowatt hour sales increase year after year, due both to the natural growth of population and the increased use per person. In industry the move toward automation and the latest trends toward decentralization and underground construction of new plants favor electricity. The farmers are using increased amounts of electricity as a source of power on the mechanized farm. The trend toward air-conditioning has greatly stimulated the summer residential use of electricity so that some companies now have a summer peak instead of a winter. In New York City new skyscrapers as well as old ones are being completely air-conditioned. Residential air-conditioning is fast gaining popularity despite difficulties over house wiring with older homes.

The heat pump, the most economical device for year-round air-conditioning (optional heating or cooling from the same device) in moderate climates, is gaining a strong foothold in the south; if it can be developed to the point where it is feasible in northern areas as well, the national residential use of electricity would skyrocket.

In addition to these increasing demands, the Atomic Energy Commission is absorbing huge amounts of electricity for the construction of atomic bombs and for its general research program, including nuclear powered submarines, battleships and planes, power plants, etc. *The AEC is now by far the largest single consumer of power in the country and probably takes more than any single city.*

In the week ended December 24, power output ran 23% over the previous year, while other recent weekly gains have ranged from 14% to 18%. A seasonally adjusted index of electric output at the year-end stood at 210% compared with 179% a year earlier and 161% in early 1953.

Earnings Still in Uptrend

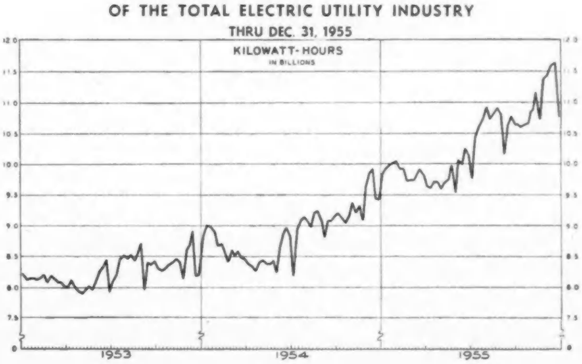
Despite the fact that the utilities have to increase salaries and wages about 4-6% annually and pay much higher prices for copper and other materials than formerly, their earnings still make an excellent over-all picture. Thus for the 12 months ended September both revenues and net income showed gains of about 10% over the previous year, despite the fact that average residential rates have continued to decline month after month and year after year (due to the promotional character of the rate schedules, which reward the householder with lower rates for increased use). In the same period total dividends paid on common stock increased 7.5%, part of the increase being due to the larger number of shares outstanding while the balance reflected higher dividend rates. During the year a majority of the important electric utility companies increased their dividend rates moderately as many of them had been doing every year or so during the postwar period.

These increases in earnings and dividends are due to several factors—(1) the current general prosperity; (2) a somewhat higher payout policy by some utilities as they reach their objectives as to equity ratio, etc.; (3) the effects of "plowing back" about one-quarter of earnings available for common stockholders; and (4) the constantly increasing efficiency of operations permitted by installation of new generating plants, etc.

The three parties principally concerned—consumers, stockholders and employees—all benefit by the steadily increasing efficiency of the electric utilities. Larger and larger generating units are being installed, with steadily decreasing coal consumption in relation to output. Thus while the average plant in 1954 consumed nearly a pound of coal to produce 1 kilowatt of electricity (a reduction of nearly 24% in the past decade) the most efficient plant now under construction may use as little as .6 pound of coal. As new plants replace old, this level will gradually be approached.

Another statistical test is the number of BTUs (heat units) needed to produce 1 kilowatt. These have declined from 15,800 in 1945 to 12,200 in 1954, and one company, American Gas & Electric, now needs only 10,700. During the wartime period and for several years thereafter, fuel prices rose sharply, more than nullifying this increased efficiency; but

WEEKLY ELECTRIC OUTPUT
OF THE TOTAL ELECTRIC UTILITY INDUSTRY
THRU DEC. 31, 1955



since 1948 there has been no substantial net change in coal prices so that *fuel costs per unit of output have trended lower. This has been an important factor in the good earnings reports made by the industry.*

Fuel economies are not the only benefit from new generating units—the number of men required to run the power plant can also be reduced. The same trend is feasible in almost all departments. The adoption of bi-monthly billing has released some employees for other duties, and the use of accounting machines (and now the huge IBM "brains") permits a much heavier volume of accounting work to be handled with the same staff. Thus increased efficiency has the effect of offsetting the regular yearly wage increases granted by most utilities.

More Liberal Rate Adjustments

There are, of course, always some utilities which lag behind the rest for one reason or another, with earnings which are inadequate in relation to the rate base. Sooner or later these companies request rate increases and most of them have been successful in obtaining them in the postwar period. Of about 454 applications for such increases since 1945, 419 have been granted and only 15 were denied (11 were withdrawn and 9 are still pending).

Many analysts feel that the industry is entitled to still further rate relief to counter the effects of inflation and provide an ample reserve for a possible adverse turn in the business cycle in future years. They reason that the cost of new plant has virtually doubled over the prewar level and that hence it costs twice as much to replace the old plants. While the increased efficiency of the new plants offsets part of the higher plant cost, nevertheless many states now make some concession to "inflation" by granting a so-called "fair value" rate base which permits the State Commissions in fixing rates to take into account not only original plant cost less depreciation, but also the present cost of reproduction (net). A number of states including Ohio, Pennsylvania, Illinois, etc., use the "fair value" concept, but New York and others still stick to original cost. Some states have, however, made minor concessions to inflation by permitting use of year-end rate bases, etc.

Dixie Climate Favorable

Thus there is considerable diversity regarding allowable utility earnings in different states. As is generally known to investors, Texas has the most liberal regulatory atmosphere of any important state, and this fact combined with very cheap power obtained from natural gas as fuel, plus the rapid growth of population and industry in the state, have made the Texas utility stocks practically the most popular marketwise. In recent years the State of Florida has lived down its earlier reputation as a bad regulator—the old Pinellas County Board having been supplanted by a liberal State Commission *—and this has put the utilities in that state virtually in a class with the Texas growth stocks.* In California, on the other hand, the rapid growth has been largely offset by a chilly regulatory atmosphere (now improved to some extent) as well as by occasional drought effects on hydro output. Utilities in some of the other fast-growing western states, such as Arizona and Colorado, have also proved popular from the investor's point of view.

While the growth of the electric utilities has been broadly favorable (particularly when they have been fairly regulated) from the investor's viewpoint, obviously investors interested in near-term appreciation have profited by selecting those stocks likely to benefit most by coming special developments. In earlier years it was possible for the alert investor or analyst to pick growth stocks which had not yet graduated into the 18-20 "times earnings" brackets, but now this is becoming more difficult. In other cases where management realized that their rate of return was too low and were about to ask for substantial rate increases, these utility stocks could be bought with the expectation of a substantial rise in earnings when the rate increase was granted. In still other cases obsolete plants were being replaced with efficient generating units, with resulting favorable earnings prospects. Now it is becoming increasingly difficult to find bargains of these types, though they can occasionally be detected. Of course a few utility stocks at any given time may be selling too low in reference to the group as a whole, as indicated by the standard yardsticks such as yield, payout, P-E ratio, equity ratio, etc., and modest profits can occasionally be made by selecting these "out-of-line" stocks.

Management Factor Vital

The character of the management remains an important factor in selecting utilities. An alert and stock-minded management can take advantage of the "breaks" while an inefficient or ultra-conservative management may repeatedly overlook opportunities to improve earnings and dividends. In general, therefore, the stock of a company with good management enjoys a "plus factor" even though it may seem amply priced as compared with similar utilities.

Leading utility authorities seem agreed that the industry should continue to double in size about every decade, barring a long and severe depression of the 1930-35 type. The industry is confidently projecting its construction program several years ahead on this basis. Continued improvements in generating units (with an eventual swing toward atomic reactors as atomic generating costs are reduced) will cheapen electricity still further and automatically stimulate its use for major new appliances such as the heat-pump, driers and incinerators, etc. Color TV will soon be a factor using substantially more current than regular TV.

With such continued growth alert managements will still find opportunities to improve earnings, dividends and stock prices, in spite of regulatory handicaps. Barring any major catastrophe such as war, invasion, or deep depression, the electric utility stocks should continue to furnish reasonable yields, with good appreciation potentials for discerning investors. Increasing demands from institutions and pension funds are an important market factor, particularly as the amount of new equity financing is now decreasing somewhat due to the new tax-saving depreciation rules which generate increased cash.

(Note: Brief comments on each of 29 leading public utility stocks will be found appended to the accompanying table.)

—END

Statistical Comparisons—Public Utility Companies

	Earnings Per Share			Dividends Per Share					
	1953	1954	Estimated 1955	1953	1954	Indicated Rate 1956*	Price Range 1954-1955	Recent Price	Indicated Yield
American Gas & Electric	$ 2.49	$ 2.52	$ 3.00	$ 1.60[1]	$ 1.68	$ 2.00	52¾-33¾	48	4.1%
Baltimore Gas & Eectric	1.68	1.89	2.10	1.40	1.40	1.60	35⅞-26⅝	33	4.8
Central & South West Corp.	1.72	2.00	2.10	1.04	1.20	1.40	36⅞-23⅛	34	4.1
Cincinnati Gas & Electric	1.56	1.71	1.80	1.00	1.00[1]	1.20	29½-20⅞	27	4.4
Cleveland Electric Illum.	2.04	1.93	2.35	1.30	1.30	1.60	41 -26¾	36	4.4
Commonwealth Edison	2.38	2.70	2.65	1.80	1.80[3]	2.00[2]	48¾-36⅞	42	4.7
Consolidated Edison	2.94	2.98	3.10	2.30	2.40	2.40	52¾-40⅞	48	5.0
Consumers Power Co.	3.16	3.10	3.25	2.15	2.20	2.20[1]	53⅛-38⅞	50	4.4
Dayton Power & Light	2.78	2.88	3.30	2.00	2.00	2.20	48 -37	46	4.7
Detroit Edison	1.92	2.05	2.45	1.50	1.60	1.60	37¾-28⅜	35	4.5
Duquesne Light Co.	2.22	2.26	2.25	1.55	1.66	1.80	38 -28¼	33	5.4
General Public Utilities	2.30	2.42	2.65	1.60	1.70	1.72	39¾-28⅛	35	4.9
Illinois Power Co.	2.74	2.82	3.40	2.20	2.20	2.60	57 -40	52	5.0
Indianapolis Pr. & Lt.	1.60	1.62	1.80	1.02	1.10	1.40	31¼-19⅝	28	5.0
Middle South Utilities	2.06	2.13	2.20[4]	1.37	1.42	1.50	35⅝-26¾	31	4.8
New England Electric System	1.18	1.16	1.25	.90	.90	1.00	18 -13¾	17	5.9
Niagara Mohawk Power	2.03	2.11	2.20	1.60	1.60	1.80	36¼-27⅜	32	5.6
Northern States Power	1.10	1.07	1.15	.70	.80	.80	18¼-13¾	17	4.7
Ohio Edison	3.15	3.02	3.55	2.20	2.20	2.48	52½-38½	49	5.0
Pacific Gas & Electric	2.82	2.88	3.20	2.05	2.20	2.20	53 -39⅛	49	4.4
Philadelphia Electric	2.36	2.25	2.30	1.55	1.75	1.80	43 -32¼	38	4.7
Public Service Electric & Gas	1.80	1.96	2.25	1.60	1.60	1.80	34¼-25½	33	5.4
Public Service of Indiana	2.36	2.39	2.50	1.85	2.00	2.00	43⅜-35⅝	38	5.2
Southern California Edison	2.68	3.06	3.25	2.00	2.00	2.40	54¾-37⅞	50	4.8
Southern Co.	1.24	1.29	1.33	.80	.80	.90	21⅛-15⅞	19	4.7
Utah Power & Light	2.61	2.88	3.10	1.80	2.00	2.20	52 -34½	51	4.3
Virginia Electric & Power	1.78	2.20	2.55	1.40	1.40	1.60	44¾-27	39	4.1
West Penn Electric Co.	1.72	1.88	2.05	1.10	1.15	1.30	29¼-18¼	26	5.0
Wisconsin Electric Power	2.16	2.31	2.40	1.50	1.50	1.60	36½-28¾	33	4.8

(*)—Based on 1955 last quarterly payment.
[1]—Plus stock.
[2]—3 shares of Nor. Ill. Gas for each 10 shares held.
[3]—1 share of Nor. Ill. Gas for every 25 shares of Edison held.
[4]—Includes some revenue collected under bond.

American Gas & Electric: One of most efficiently operated systems. Area favored for new industrial plants, and utility plans large expansion. Consistent gains in share earnings since 1951 should continue. (A)

Baltimore Gas & Electric: Sound old-line utility. 1954-5 earnings benefitted by rate increase equivalent to 30c a share. With improving gas house-heating sales, modest earnings gain likely in 1956.

Central & South West Corp.: Stock has become popular institutional issue. Operating in rapidly-growing central south, revenues more than doubled in decade and share earnings gained 50% since 1951, with annual dividend increases. (A)

Cincinnati Gas & Electric: Operating in city noted for industrial stability, company paid dividends since 1853. Aggressive, civic-minded management has achieved excellent public relations. Generous return on investment permitted by Ohio law. Dividend increase possible.

Cleveland Elec. Illum.: 1955 share earnings in upsurge, further gains likely. Company in center of heavy industry area, with excellent growth rate but some cyclical risk. 43% equity ratio indicates high investment quality.

Commonwealth Edison: This important utility has spun off gas property, now all-electric. Earnings have shown good gains, due partly to 1954 rate increase. Installation of over 600,000 kw generating units last year suggest 1956 economies, possibly another dividend increase.

Consolidated Edison (NY): Largest electric-gas utility, with moderate growth enhanced by increased air-conditioning in large new office buildings. Share earnings stable, with generous yield considering high quality of stock.

Consumers Power: Has enjoyed rapid growth due to automobile and related industries, plus sharp gains in gas business, but share earnings have not shown substantial gains since 1946. Stock dividend paid recently in lieu of cash increase. Equity ratio above average.

Dayton Power & Light: Share earnings stable; city of Dayton highly industrialized but company also serves adjacent farm area. Dividend payout still conservative despite recent increase.

Detroit Edison: Benefitting from motor prosperity, with good post-war share earnings trend, especially in past year. Should benefit by automation trend. Conservatively capitalized, good yield.

Duquesne Light: Earnings stable past three years, following earlier gains. Only moderately vulnerable to steel cycle, but regulation might become less favorable. Near-term outlook favorable and stock (near 1955 low) offers above average yield.

General Public Utilities: This holding company, with aggressive management, enjoyed substantial gains in share earnings since 1951, with further increase expected in 1956. Philippine subsidiary, which contributes 20c dividend, benefits by recent end of 17% withholding tax.

Illinois Power: 1954-5 earnings benefitted by rate increase but on other hand Company now losing some AEC business account completion of Joppa plant servicing AEC. Yield about 5%, with fairly liberal payout.

Indianapolis Power & Light: Has benefitted by industrial gains in its area, revenues having more than doubled since 1946. Trend of share earnings somewhat disappointing (possibly due to build-up of equity ratio) until sharp gain in 1955.

Middle South Utilities: Earnings have shown modest but steady gains in recent years reflecting sharp revenue increases. However, impact of the "Dixon-Yates" political controversy, together with rate troubles in Arkansas, affected stock's popularity in past year.

New England Electric System: This stable New England utility recently increased its dividend to $1.00 making yield nearly 6%. System capital structure and operating setup greatly improved in past decade, but share earnings have been somewhat irregular.

Niagara Mohawk Power: Earnings have shown excellent gains since 1951 and some further increase is anticipated for 1956. Dividend recently increased to $1.80, affords very liberal yield considering company's size and sound regulatory position.

Northern States Power: Important Mid-West utility, serving stable farm area with some light industry. Should benefit by increasing gas supplies, and development of taconite in Minnesota, etc. Liberal payout.

Ohio Edison: Share earnings showed little net gain in past decade until 1955 when they increased sharply from $3.02 to $3.53, pushing dividend rate up to $2.48. Prospects for 1956 seem favorable with installation of new generating units.

Pacific Gas & Electric: Enjoyed rapid sales growth with expanding California economy, but share earnings irregular in post-war period due to frequent stock financing and other factors. However, 1955 showed sharp improvement and further gains in 1956 might result in dividend increase.

Philadelphia Electric: Share earnings increased sharply in 1945-50 but little gain in last five years, though dividend rate had been stepped up. Industrial developments in the Delaware River area favorable.

Public Service Electric & Gas: Had rather disappointing earnings trend following 1948 recapitalization, until 1955 when earnings gained sharply and dividend was increased. Regulatory picture in state showing some improvement, but large bus subsidiary has been a drag.

Public Service of Indiana: Failed recently to obtain requested rate increase of $4 million, being permitted only a 5.4% return by state commission. 83% dividend payout relatively high, but yield of about 5.3% is liberal.

Southern California Edison: Enjoying extremely rapid growth with current revenues 2½ times as large as in 1945. With benefit of rate increase and larger steam capacity earnings recovered sharply in 1954-5 and further gains seem indicated. (A)

Southern Company: Enjoying continued rapid growth as new industries continue to move into system area. Share earnings have improved steadily since 1951 with $1.50 estimated for 1956. If latter figure realized, 90c dividend will probably be raised to $1. (A)

Utah Power & Light: Has enjoyed above-average revenue growth, though share earnings have not quite kept pace since 1950. Dividend payout has been liberalized, with gradual increase in dividends from 90c in 1946 to $2.20 currently.

Virginia Electric & Power: Share earnings improved sharply in 1954-5 as result of improved generating facilities and rate increase. Dividend payout is well below average and an increase in the rate seems probable. (A)

West Penn Electric: Has increased share earnings consistently, despite build-up of equity ratio from 13% in 1945 to over 28%. Currently favored by activity in steel industry. Price-earnings ratio well below average.

Wisconsin Electric Power: Has a reputation for efficient operation and sound management. Dividend payout is only 66% and an increase in the dividend rate should be forthcoming in 1956.

A—Considered to have best long-term growth prospects.

INVESTMENT AUDIT:

LOUISVILLE & NASHVILLE RAILROAD

By ROGER W. CARLESON

Like people, railroads often acquire characteristic nicknames. Louisville & Nashville has long been known as "Old Reliable". Rail officials have painted this monicker on the sides of the L&N freight cars, with service in mind no doubt; investment analysts think instead of the road's unusually sound earnings and dividend record.

In all its 105 years, L&N has never plunged off the track into reorganization. It managed to survive confiscation and partial destruction by both Confederate and Union forces in the Civil War. During the precarious 1930's the road covered its interest charges every year except 1932. Moreover, L&N has paid dividends steadily every year since 1898 with the exception of 1933.

Yet for all its solid progress, L&N is not a railroad that figures importantly or often in the newspapers. It has never had a rail-rousing president like Robert R. Young. It has no headline-worthy commuter problems like the Pennsylvania with its limping affiliate, the Long Island Rail Road. It does not advertise heavily for the Southbound tourist trade like Southern Railway and Seaboard. In fact, in the last decade L&N only made big news once—a serious strike which lasted 58 days early in 1955 but had little effect on the year's earnings. This fight did not involve the usual wages-and-hours issue but whether a health-and-welfare plan should be compulsory.

Serves Humming Dixie

With all its corporate shyness, L&N has done a quietly aggressive job of keeping up and keeping ahead of the transportation needs of its growing area. A true Southerner, *Old Reliable* has never entered Yankee territory—probably never will. But its lines spin a 6,500 mile web of steel through a 14-state Dixieland area. About half this trackage lies in Kentucky with its important coal fields and Alabama with its Birmingham steel center.

The rest is strategic, too. In an easterly direction L&N reaches Knoxville, Tenn., Cincinnati, Ohio, Clinchfield, Va. Southwards Atlanta, Augusta and Macon are important stops in Georgia; Pensacola, Fla., is a terminal; a line through southernmost Mississippi extends to New Orleans; another terminates at Memphis. In the midwest L&N stretches a steel fingertip to East St. Louis (Ill.) which gives connection with the all-important rail interchange city of St. Louis (Mo.) directly across the Mississippi River. This is the largest city in L&N territory, second largest United States rail center and eighth in population.

Part of this extensive coverage of the South is handled by L&N affiliates. Both the Clinchfield and the Georgia Railroads (co-leased by L&N and Atlantic Coast Line) contribute 300 miles of road each. More important is the 75%-controlled Nashville, Chattanooga & St. Louis Railroad with its 1,000 miles. Even now the Interstate Commerce Commission is studying L&N's plan to merge NC&StL, which would save an estimated $3,500,000 yearly. When brought down to earnings this should be worth about 75¢ a share for L&N shareholders.

In turn L&N has a large and conservative controlling stockholder — the neighboring Atlantic Coast Line. This happy relationship dates back many years. In the stock-buccaneering era of the early 1900's, speculator John W. "Bet a Million" Gates tried hard to buy control of the L&N. Not to be outdone, doughty J. P. Morgan tried harder. Result: the Morgan team has had a conservative hand on L&N's throttle ever since. Today Atlantic Coast Line owns 35.2% of L&N stock worth $80,000,000 at current market value but carried on the ACL books at a

mere $35,000,000, or less than half today's price.

Traffic Trends

Bituminous coal is the most important single commodity handled by United States Railroads. In fact, it provides about 25% of Class I railroads' originated tonnage, 12% of all revenues. With its myriad of tracks in the Kentucky coal fields and the burgeoning steel center of Birmingham, L&N ranks as the nation's fourth largest originator of bituminous traffic (C&O, N&W and B&O carry more).

Soft coal can be a very profitable cargo. As every investor knows (or should know) coal is one of the most cyclical commodities carried by the railroads. Hence in 1954 the nation's carriers originated about 300,000,000 tons *v* 450,000,000 in an excellent production year like 1947. Involved in the swing are basic factors like business conditions, rate of steel production, prices of competitive fuels, strikes by John L. Lewis and his United Mine Workers, export demand for coal, etc. Over the years coal has lost its relative importance as a fuel but there are many favorable factors.

With the growth of the national economy in the next 10 years the total demand for coal may rise, not fall. Scientists are busily developing new uses (coal-burning steam turbine locomotives, still in the laboratory, could conceivably displace diesels). Better mining methods help coal companies cut costs. L&N is in a favorable position as a coal carrier because it serves some of the most efficient mines in the country.

Better yet, bituminous coal accounts for about 27% of L&N's revenues compared to over 40% in 1929. The reason is the postwar industrialization of the South has loaded L&N freight cars with diversified cargoes. In fact, the category "manufacturers and miscellaneous" now accounts for close to 45% of L&N revenues against less than 25% in 1929.

Products carried cover a wide range because the L&N estimates 187 new factories have opened trackside each year since war end. This has added an average of 38,000 carloads yearly. For example, top of the list is the $250,000,000-plus General Electric appliance plant at Louisville. Add to this other multimillion plants like the Ford Motor Co. assembly plant (also Louisville); Olin Mathieson organic chemical unit at Brandenburg, Ky.; Worthington Corp. air conditioning factory at Decatur, Ala.; Chemstrand (nylon fiber) plant at Pensacola, and many more.

Paradox though it seems, the automobile which has stolen so many passengers from L&N now is expected to boost the road's revenues. L&N looks forward to the opening of the multi-million Ford safety glass plant in 1956. In fact L&N developers helped Fordmen select the strategic 250-acre site on the edge of the Cumberland River in West Nashville, Tenn. Eventually the plant will employ 2,500 persons with a $15 million payroll yearly. L&N hopper cars will bring the sand and other basic materials needed for production.

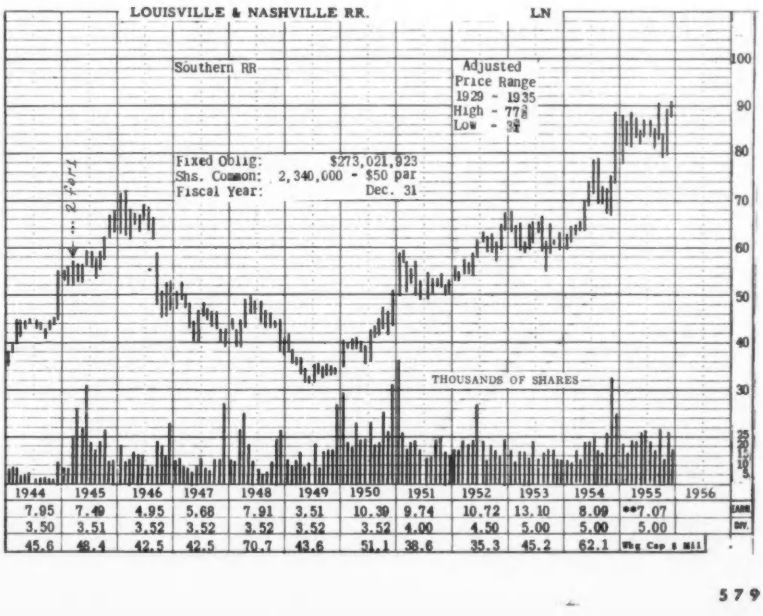
No wonder L&N's president John E. Tilford enthuses about the "phenomenal shift of industry to *Old Reliable* territory and the great potential of the South's rapidly expanding might!"

Comparative Balance Sheet Items

ASSETS	December 31 1945	1954	Change
	(ooo omitted)		
Cash & Marketable Secur.	$ 53.338	$ 45.826	—$ 7.512
Receivables, Net	30.635	21.700	— 8.935
Materials & Supplies	12.462	15.406	+ 2.944
Other Assets	2.511	1.602	— .909
TOTAL CURRENT ASSETS	98.946	84.534	— 14.412
Road & Equipment	488.792	672.038	+ 183.246
Donations & Grants	(CR) 4.061	(CR) 4.539	+ .478
Deprec. & Amort.	(CR) 145.004	(CR) 172.700	+ 27.696
Investments & Funds	29.490	41.329	+ 11.839
Other Assets	4.721	7.741	+ 3.020
TOTAL ASSETS	$472.884	$628.403	+$155.519
LIABILITIES			
TOTAL CURRENT LIABIL.	$ 50.474	$ 22.393	—$ 28.081
Other Liabilities	.989	.692	— .297
Unadjusted Credits	11.773	7.783	— 3.990
Long Term Debt	176.090	274.934	+ 98.844
Common Stock	117.012	117.012	—
Surplus	116.546	205.589	+ 89.043
TOTAL LIABILITIES	$472.884	$628.403	+$155.519
WORKING CAPITAL	$ 48.472	$ 62.141	+$ 13.669
CURRENT RATIO	1.9	3.8	+ 1.9

Help From Iron Ore

Another favorable prospect for L&N hoppers is iron ore. This all-important commodity is a growing, though not yet large, source of revenue for L&N. Reason: the basic change in steel economics. For years the nation's steel mills have depended on the famed Mesabi range in Northern Minnesota for ore needs. U.S. Steel's wholly-owned Duluth, Missabe & Iron Range Railroad and two large northwest carriers, Great Northern and Chicago & North



Western, handle over 65% of the tonnage. But after years of use the low-cost, high-grade Mesabi ore fields are gradually being depleted, and the major steel companies have already made huge investments in foreign ores to supply future needs.

At present, foreign ores (Venezuela and Canada primarily) supply about 16% of the iron ore tonnage carried by United States roads. By 1960 that figure should rise to 28%. Chief beneficiaries of the increased traffic will be L&N and Gulf, Mobile & Ohio, which originate the foreign ore at the Gulf port of Mobile, and Baltimore & Ohio and Western Maryland, which pick up ore at Baltimore. Currently, iron ore accounts for about $3 million in yearly revenues for L&N.

To keep pace with national growth U.S. railroads have funneled dollars by the millions into capital improvements. In proportion, L&N has spent substantially more than the average Class I carrier. In fact, since war end it has paid out about $300 million for improvements, ranging from crushed stone for the roadbed to huge new freight terminals. That sum is equivalent to over 60% of the $483 million total valuation of road and equipment in 1945.

Recent improvements include the new $15 million pushbutton Radnor freight (Nashville) which covers 800 acres with 100 miles of switching track. With the flick of pushbuttons, tower operators break up trains, classify 2,500 freight cars daily, form new trains and speed them on the way. L&N has lavished $6 million on its Hill's Park Yard at Atlanta and expects to spend $10 million this year on a new freight terminal in Birmingham, headquarters for its most important industrial customer, Tennessee Coal & Iron.

All Out for Diesels

Because of its heavy coal traffic, L&N was slower than many roads to switch to diesels. Also, unlike many of the Northern and far Western roads, such as New York Central and Union Pacific, the L&N does not cater much to passengers, and it is in this traffic category more of the early diesels were used. For example, L&N ended the war in 1945 with 24 diesel passenger units and 35 switchers. But, reprehensibly slow though it was in diesels, L&N now has gone all out. In 1950 it received its first large order —62 freight units and 37 diesel switchers.

At the start of 1955 there were 319 freight units, 32 passenger units and 165 switchers. Currently *Old Reliable's* diesel fleet exceeds 540. At this point 100% of passenger and switching operations are handled by the oil-burners and over 90% of the freight business. Meanwhile, L&N's bevy of steamers has been cut from 914 in 1945 to 80 now, and most of these are in storage. President Tilford expects to retire all the steamers from active service at the end of 1956 so that L&N will be 100% dieselized (delivery of 50 more diesel units now on order will do the trick).

Along with other U.S. roads L&N has been slowly and steadily improving its freight car fleet. Last Fall it placed an order for 1,000 new cars to cost $8 million. Track is important, too, and in this field L&N workers have been busy. At the start of 1955, more than 1,000 miles of main track were equipped with new 132-pound rail. Meanwhile, 35,000 tons of heavy rail are on order—from customer Tennessee Coal & Iron. Since it requires about 233 tons of rail for a mile of track that will increase heavy duty trackage by another 150 miles.

Just last Summer, *Old Reliable* showed interest in an important postwar railroad development—trailer loads. On August 15, it launched its "Tote" service, dubbing it "a spur track into every industry." Tote loads are especially adaptable for less-than-carload lots. Handling involves use of trailers which can be loaded from trailer trucks onto rail flatcars, then unloaded at the destination from truck delivery to factories, wholesalers, storage depots, retail stores, etc. Some other U.S. railroads began to use trailer service profitably several years ago. Its importance: for the first time railroads have a good chance of competing with the truck industry. Already L&N has made progress in building up a fleet of trailers (17 at the start of 1955).

The Payoff

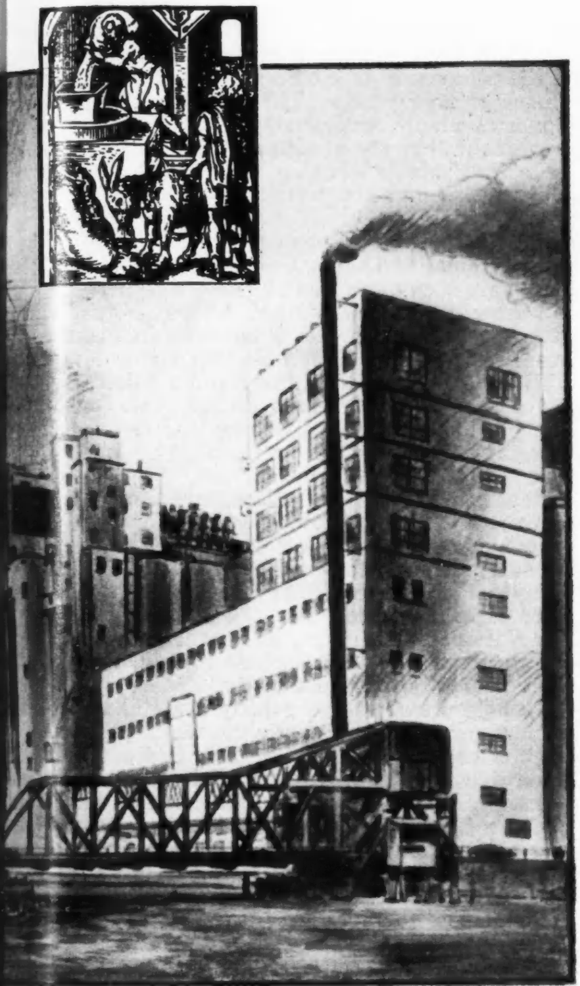
Work hard, say little and make money is *Old Reliable's* recipe for success. Operating revenues of L&N and affiliates have shown quietly prosperous steadiness rather than spectacular growth. For example, the range is from a postwar low of $169 million in 1946 to an all-time high of $233 million in 1953. Based on 11 months' results, revenues for the 1955 year will be in the neighborhood of $181 million, reflecting the two months' strike.

The reason the road (*Please turn to page* 600)

Long Term Operating and Earnings Record

	Total Operating Revenues (Millions)	Railway Operating Expenses (Millions)	Operating Ratio	Federal Income & Other Taxes	Gross Income (Millions)	Total Fixed Charges (Millions)	Net Income	Net Per Share	Div. Per Share	Price Range High-Low
1955 (11 months to Nov. 30)	$163.0	$126.9	77.8%	$22.2	$29.9	$8.2	$21.6	$ 9.24	$5.00[1]	90¾-77½
1954	196.8	161.0	81.8	20.3	28.2	9.2	18.9	8.09	5.00	88½-59¾
1953	232.9	168.8	72.4	37.3	39.6	8.9	30.6	13.10	5.00	67⅞-55
1952	226.7	173.2	76.4	33.8	33.9	8.7	25.1	10.73	4.50	67¾-52¼
1951	226.4	173.9	76.8	35.1	30.8	7.9	22.7	9.74	4.00	59½-48½
1950	203.0	150.6	74.2	34.8	31.8	7.4	24.3	10.39	3.52	50⅜-34½
1949	177.4	149.4	84.2	20.5	15.7	7.4	8.2	3.51	3.52	41½-31⅝
1948	207.2	169.4	81.7	25.3	25.3	6.8	18.4	7.91	3.52	50 -37
1947	189.6	156.3	82.4	24.1	19.5	6.1	13.2	5.68	3.52	53 -39½
1946	169.6	140.4	82.8	18.7	18.1	6.1	11.5	4.95	3.52	72¼-45⅜
1945	196.5	146.4	74.5	31.6	24.9	7.2	17.5	3.74	3.52	72¼-49¾
10 Year Average 1945-1954	$202.6	$158.9	78.7%	$28.1	$26.7	$7.5	$19.0	$ 7.78	$3.96	88½-31⅝

[1]—Total 1955 dividend. [2]—To January 10, 1956.



Progress Report on Depressed Industries—No. 5:

The Baking Industry

By JOSEPH C. POTTER

The bread baker can claim kinship to the old-time newspaper editor, who also rushed to get his product onto the street in the early morning hours. And day-old bread, traditionally, has been almost, although not quite, the total loss represented by yesterday's unsold edition.

This is but one of the long-time problems of an industry that has more than its quota. Thus, while its product reverently is referred to as "The staff of life," the eating habits of a nation have changed so radically that bread no longer occupies the pivotal place in our diet. The swift growth of the supermarket trend, as another example, has been a boon to other food producers, notably processors of the frozen variety, but to the baker it has meant, for the most part, fierce competition from the store chains, many of which bake their own bread. Another bite is taken out of the loaf by millers who promote new home mixes.

A number of bakers has banded together in the past few years to improve competitive position and many have taken on other products. The merger trend is highlighted by the combination, in 1953, of Purity Bakeries Corp. and American Bakeries Co., making the surviving American the second largest baker of bread in the country. National Biscuit Co., an important bread baker which gets the bulk of its revenues from cookies and crackers, has taken over Hills Brothers, maker of Dromedary cake mixes; Ranger Joe Cereal Co., and Schooley & Son, producer of dog meal. Nabisco has stressed "broad horizon" products, with the result that its "NBC" bread probably contributes little more than 10% of the almost $400 million annual "handle."

5 Slices Per Day

While it is true that America is eating more bread than ever before, the growing volume must be ascribed to a population that increases by nearly 3 million persons a year rather than to any new-found popularity of the product. Indeed, in 1954, bread consumption ran about even with 1953 despite the presence of millions of additional mouths. In fact, it remained on this none-too-lofty plateau during the first quarter of 1955. However, early in April the tonnage figures started pulling away from the 1954-53 levels so that for all 1955 consumption rose by about 3% from the previous year, which gave the industry a large measure of encouragement.

It is calculated that the American, on the average, eats five slices of bread per day. That adds up to about four ounces and indicates 41 million pounds of the product are eaten daily. It may very well be that the political pundits could accomplish more with the nagging problem of grain surpluses by getting people to eat an extra slice of bread each day than by offering endless artificial panaceas. After all, 75% of all flour sold domestically is used by our commercial bakers.

The baker is not waiting on Washington either. He has gone after the consumer with a large-scale program of advertising and promotion, much of it directed at children, although their elders are not completely neglected. Puppets, cowboys, horses and dogs, flitting across the home television screen, are designed to entertain the moppets, who are expected to ask Mother to buy that enriched bread. Bakers such as Nabisco have undertaken aggressive selling and merchandising campaigns. Advertising expenditures of Nabisco and subsidiaries have increased each year over the last decade, reaching a total of $12.7 million in 1954. The figure last year was on the order of $20 million.

Patty Cake Goes Modern

The baker finds it difficult to understand the hue and cry about automation in industry. In his own field it's old stuff, going back as far as 1918. Corporate success, almost invariably, can be measured by the degree of automation within the plant. In the trade, plants are known by three classifications — fully automatic, semi-automatic and manual. There probably are a dozen plants in the country that have attained a high degree of automation. General Baking Co., one of the giants of the industry, has spent, on the average, $730,000 yearly over the last 15 years for ovens, machinery and equipment. Such expenditures, designed to give the company new plants in growing areas and replace obsolete machinery in long-established markets, do not include cost of land and buildings, which has averaged $400,000 per year over the same span.

Nabisco, as another example, has spent far in excess of $100 million since the close of World War II on new plants and improvements and modernization of existing facilities. Even with that, its spending program is far from complete. Among the major projects has been the construction of a $20 million bakery in Chicago that began operating in late 1952. A new Philadelphia bakery is scheduled to go into operation presently. Another new bakery is under way at Fair Lawn, N. J.

Products and Processes

On another front, the goal of better bread at lower cost is sought through new baking processes. These include the stable ferment process originated by the American Dry Milk Institute — and the continuous mixing process. American Machine & Foundry is one of the companies developing machinery for the continuous mixing process. These new production techniques eliminate several steps in the production of bread as well as the need for seven-day operation.

On the distribution side, where cost have shown a disturbing upward trend, progress also is being made. Arnold Bakery Co., which has made large strides in the New York area, freezes the finished packaged loaf and ships it at zero temperatures. The loaves are then dispensed by franchised dealers, who can thaw them in 90 minutes. Freezing bread eliminates overtime labor costs incurred in making deliveries on holidays and, most important, does away with stale bread. All of the leading bakers are engaged in intensive research of this type. Once these methods are perfected, industry leaders expect that marginal producers will be replaced by loading stations fed by the major firms.

The changes cited, of course, are aimed at trimming costs. Pre-tax profit margins for bakers traditionally have been lower than those prevailing in other segments of the food-processing field. At *Continental Baking Co.*, kingpin of the bread bakers, labor takes something like 35 cents of the sales dollar. National Biscuit Co., as another example, pays out about 33% of its sales to employes, while profit margins before taxes amount to 12.5%.

To hike profit margins, many bakers have turned to new products that carry premium prices. Continental has brought out a costlier bread, which has been well received. Nor has Continental stopped there. In the closing days of 1955, it acquired Morton Packing Co., an important producer of frozen meat pies and frozen fruit pies. Continental, best known for its Wonder Bread and Hostess Cakes, earlier in the year acquired Stewart's, Inc., a Memphis producer of potato chips (*Please turn to page* 595)

Statistical Data on Leading Bread-Baking Companies

	1953 Earnings Per Share	1953 Div. Per Share	1954 Earnings Per Share	1954 Div. Per Share	1955 9 Months Earnings Per Share	1955 Indicated Div. Per Share	Price Range 1954-1956	Recent Price	Div. Yield
American Bakeries Co.	$ 2.66	$1.00	$2.61	$2.00	$2.30[1]	$2.10	36 - 26⅜	34	6.1%
Continental Baking Co.	3.60	1.60	3.65	1.65	3.89[2]	1.90[6]	41½ - 18⅞	35	5.4
General Baking Co.	.98	1.00	1.00	.60	.40[2]	.60	11⅝ - 9	9	6.6
Hathaway Bakeries, Inc.	.46	1.00	[d] .54	—	[d] 1.07[3]	—	10 - 4⅛	4	—
Horn & Hardart Baking (N. J.)	11.95[4]	8.00	8.71[4]	8.00	6.91[4]	8.00	149¾ - 130	137	5.8
Interstate Bakeries Corp.	2.80	1.00	3.70	1.00[6]	2.94[1]	1.00	29¾ - 19⅜	23	4.3
National Biscuit Co.	2.61	2.00	2.85	2.00	1.84	2.00	45⅞ - 36¼	39	5.1
Ward Baking Co.	3.12	2.00	1.54	1.80	1.02[5]	1.25	27⅝ - 15⅝	16	7.8

[d]—Deficit.
[1]—40 weeks ended Oct. 8, 1955.
[2]—39 weeks ended Sept. 24, 1955.
[3]—6 months ended July 2, 1955.
[4]—Years ended Sept. 30.
[5]—43 weeks ended Oct. 22, 1955.
[6]—Plus stock.

THE EDITORS'

INVESTMENT CLINIC

Case No. 16

Sound Diet for the Investor

With the year-end, a number of subscribers have become acutely aware that their portfolios need reconstruction and have written asking for advice. Following the general trend of The Magazine of Wall Street's observations on market conditions, in which we have stressed the need for conservatism in a changing market, some of these investors have already reduced the more speculative portion of their holdings but seem somewhat at a loss as to how to safely re-invest the funds obtained from these sales. Most of these subscribers wish to keep their funds invested as fully as possible.

We have, of course, been recommending not only that conservatism be followed in planning portfolios but that adequate reserves be maintained in order to take advantage of any contingencies. However, since most requests from subscribers have been for lists of common stocks for replacements for others which have been disposed of, for the convenience of subscribers we have composed a portfolio comprised entirely of common stocks which we believe may be considered for investment at this time. This portfolio has been arranged with a $50,000 investment in mind. The accompanying table gives the details.

It will be noted that 40% of the total investment ($20,000) is devoted to "safe income" stocks, that is to say, stocks with a long and dependable dividend record. A combined yield of slightly under 5% may be secured from this group. This is an eminently satisfactory return in a period of characteristically low yields for above-average stocks. For the investor looking for "safety" of income, these issues are recommended. They also possess the virtue of being relatively stable marketwise.

Approximately 50% of the remaining investment ($25,000) is devoted to issues of the "growth" type. These issues are suitable for investors planning long-range investments with capital gains potentials. The five issues selected are leaders in their respective fields and, in recent years, have indicated that a strong base has been laid for continued growth. Issues of this type, however, are more subject to general market conditions and it would be wise, in such instances, to set up adequate reserves with which to make additional purchases in the event of a substantial market downturn.

The third group is limited to only 10% of the total investment ($5,000) in common stock. Speculative characteristics are more dominant in these issues than in either of the other two groups and, for that reason, the amount suggested for investment is held to minimum proportions.

It should be understood that in confining our total investment (for the purposes of this discussion) solely to common stocks, we do not by any means wish to infer that investment portfolios should not include other types of securities. We are merely here emphasizing (*Please turn to page* 594)

Portfolio For $50,000 Investment In Common Stocks

	No. of Shares	Recent Price	Amount Invested	Dividend Rate	Income Received
(40% Invested) SAFE INCOME STOCKS					
American Tel. & Tel.	25	181	$4,525	$9.00	$225
Borden Co.	70	63	4,410	2.80	196
Commercial Credit	70	53	3,710	2.65	185
Reynolds Tobacco "B"	70	53	3,710	2.80	196
Sterling Drug	70	55	3,850	2.70	189
			$20,205		$991
				Avg. Yield—4.9%	
(50% Invested) GROWTH STOCKS					
American Cyanamid	100	65	$6,500	$2.50	$250
General Electric	100	55	5,500	2.00	200
Owens Illinois Glass	75	64	4,800	2.50	187
Radio Corp. of Amer.	75	44	3,300	1.50	112
Socony Mobil Oil	75	63	4,725	2.50	187
			$24,825		$936
				Avg. Yield—3.8%	
(10% Invested) SPECULATIVE STOCKS					
Reynolds Metals	25	52	$1,300	$ .60[1]	$ 15
St. Regis Paper	25	44	1,100	1.80	45
Skelly Oil	25	44	1,400	1.80	45
Sylvania Electric	25	44	1,100	2.00	50
			$4,900		$155
				Avg. Yield—3.0%	

Total Amount Invested—$49,930
Total Income Received —$ 2,082
% Earned on Income — 4.0%
[1]—Plus stock.

FOR PROFIT AND INCOME

Strong

The small minority of stocks showing special strength in recent periods of market unsettlement includes Chain Belt, Fairbanks, Morse; Houston Oil, Hunt Foods, Marathon, Nopco Chemical, White Dental, Textron American, Shell Oil, Texas Company, (aided by 2-for-1 stock-split news), Texas Pacific Coal & Oil, and Plough, Inc.

Weak

The exceptionally soft issues on the recent market retreat, which has given way to a rally at this writing, were numerous. A partial list includes Chrysler, Admiral Corp., American Motors, Beatrice Foods, Borden, National Dairy Products, Celanese, Columbia Pictures, Certain-Teed, Decca Records, Gamewell, General Time, Gould Batteries, Lerner Stores, Lionel, National Gypsum, Paramount Pictures, Cannon Mills, Twentieth Century-Fox, Universal Pictures, Wheeling Steel, United Biscuit and Worthington Corp.

Ford

As did not surprise us, it took only a few days for the new Ford Motor stock to settle down, in over-the-counter trading, to little above the offering price of 64½, at which the underwriting syndicate was ready to support it. What it might do over the near future and after Big Board listing is anybody's guess. General Motors is, by far, the best stock in the group. It was down about 20% from its 1955 high at recent low and is now at 44. Whether the sell-off has allowed adequately for prospect of lower 1956 sales and earnings is unclear. At any time when investors are doubtful about the wisdom of new buying of General Motors, as is the case now, it is a pretty good working rule that bargains are unlikely to be found among other automotive issues, despite a very few possible exceptions from time to time.

Speculation

If the bull market ended at the late 1955 highs of the daily averages, it did so without the traditional "blow-off" in the cats and dogs. Should it terminate at a later time, we think it likely that there will still be no speculative "blow-off". There is, of course, speculation in the market, with by no means all of it smart and well informed. But, on an overall view, today's speculative demand is about as selective as is investment demand, which is as it should be. A low price is not enough to make any stock a buy. Most speculative buying is in special-situation issues which, while nowhere near investment grade, are well above the cat-and-dog class. It takes something tangible—in earnings trends and prospects or in other promising company developments — to induce significant strength in speculative stocks in this market. The occasional exceptions of unexplainable or unfounded upward surges do not change this general rule. Because of the greater risk involved, you would be well-advised to be even more discriminating in choice of speculative and semi-speculative stocks than in selection of investment-grade equities. This is not to suggest that the latter can safely be bought with closed eyes, but merely to point out that there is a wider margin for error in

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1955	1954
M & M Wood Working Co.	Quar. Nov. 30	$ .71	$ .41
West Virginia Pulp & Paper	Year Oct. 31	3.08	2.57
Amer. Tel. & Tel. & subs.	12 mos. Nov. 30	13.01	11.93
Oklahoma Natural Gas	12 mos. Nov. 30	1.89	1.64
Dow Chemical Co.	Quar. Nov. 30	.71	.35
American Airlines	Year Dec. 31	2.42	1.54
Joy Manufacturing Co.	Quar. Dec. 31	1.27	.53
Island Creek Coal	Year Dec. 31	3.08	1.43
General Foods	Quar. Dec. 31	1.34	1.00
El Paso Natural Gas	12 mos. Nov. 30	2.83	2.07

choosing speculative issues, making it all the more essential that you act on adequate information and realistic evaluation.

Meat Packers

The meat packers had a very poor year in 1954, due to short supply of hogs and higher hog prices. With hogs in increased supply at lower prices, the latter aiding margins, earnings in the fiscal year ended last October rose sharply. Some further betterment seems probable this year. The companies are striving to strengthen positions by relocation and improvement of plants, and by diversification along varying lines apart from meat-packing. That is to the good, so far as it goes, but it is still a precarious, in-and-out, narrow-margin business. So speculators —in line with the points made in the preceding item—are not willing to put much value on the improved earnings, since their continuity beyond this year is uncertain. Emphasizing this point, the stocks as a group rose about a third as much from their 1954 closing level to subsequent high as did the industrial list as a whole; and only about 30% from their 1954 low, against around 80% for the industrial list. Despite better earnings, the group made its bull-market high to date as far back as last April, against a December high for the general market. It is currently down more from its high than is the market. Conclusion: There are much better stocks to speculate in.

Dairy Stocks

The dairy stocks have been under moderate, but persistent, pressure for some time. At recent lows, Beatrice Foods was down from 1955 high of 57 to 45; Borden from high of 66⅜ to 59½; National Dairy Products from high of 43⅝ to 34⅝. All have rallied modestly in recent trading sessions up to this writing. So far as we can see, there is nothing the matter with the stocks basically. A penalty has been paid because they had run ahead of progress in this slow-growth industry. National Dairy is the best of these issues. Profit for 1955 probably was around $2.80 a share, or little different from 1954's $2.77. It might gain a few cents this year, perhaps enough to permit a boost in the $1.60 dividend. The dividend record is good, with continuous payments since 1924 and with increases, mostly of 5 to 10 cents a share, in nine out of the last 11 years. At 36, yielding 4.4%, the stock is in a sound buying range for conservative income purposes. There is, of course, no "glamor" in it.

A Buy?

Chrysler sold down over 25% from 1955 high of 101½ to recent low around 75, and is currently at 77. Is it a buy? We don't know, although the possibility of a sizable rally is conceded. In the early autumn of 1954, with the stock a bit above 60, we thought, and said, that it was a buy for at least a worthwhile recovery. Why? Because the bad news on the company's nosedive in competitive position and in earnings was out. Because the stock took the worst quarterly earnings news and held a full 3 points above its earlier 1954 low of 56¼, thus indicating a technical base for an upturn. And because it was known that the company was on the verge of introducing fully restyled cars, justifying a "bet" on some degree of comeback in the Chrysler share of the market. The reverse was so after the stock got up in the mid-90's. The company had had its strong competitive comeback and a big rise in earnings. It could not be expected to do much better in 1956 and might do worse. We suggested profit-taking. There are two difficulties now in figuring the stock. It does not have a tested technical base and nobody can say whether earnings in nearby quarters will be fairly satisfactory or surprisingly poor. They can swing sharply with sales. The operating margin is fairly narrow and variable, with the company less well integrated than GM or Ford. Conclusion: If you hold the issue, sit tight in view of the sharp price adjustment. If you don't hold it, let well enough alone, for buying it now involves too much guesswork.

Money Market

The Federal Reserve has shown no signs of back-tracking from its credit-restraint policy, despite easing in housing and in automobile demand. But it could change in no great time, in view of the evident waning of inflationary forces; and such change might be foreshadowed by recent action of other Federal agencies to ease mortgage credit with the aim of stopping the downtrend in housing starts. In any event, it seems likely that the long-term bond market has heretofore seen its worst level. It has recently firmed up slightly. We continue to think that investors should have a larger portion of total funds in high-grade bonds and preferred stocks than was necessary at lower levels of the stock market a year or two ago. High grade preferred stocks, now available at an average yield around 4%, have been notably stable over the last year or so. They should continue so, or rise modestly. There are many good preferred stocks. A few examples are Atchison $2.50, Pacific Gas & Electric $1.50, General Motors $3.75, Eastman Kodak $6, U. S. Steel $7 and Union Pacific $2.

Utilities

If the bond market has put bottom behind, that should aid utility stocks in improving their relative market position whether by advance or by holding up better than rails or industrials. As we have pointed out before, utilities are much less inflated than are industrials, much more foolproof than rails; and profit and dividend trends are moderately but surely upward. This is a good time to add some utilities to the

(*Continued on page* 602)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1955	1954
Air Associates	Year Sept. 30	$ .07	$1.31
General Mills	6 mos. Nov. 30	1.98	2.26
Douglas Aircraft	Year Nov. 30	7.66	9.80
Sheaffer (W. A.) Pen Co.	9 mos. Nov. 30	2.29	2.68
Nash., Chatt. & St. L. Rwy.	11 mos. Nov. 30	4.72	10.68
Loew's Inc.	12 weeks Nov. 24	.05	.30
Union Chemical & Materials	Quar. Nov. 30	1.20	1.26
Madison Square Garden	Quar. Nov. 30	.23	.29
Westinghouse Electric	Year Dec. 31	2.46*	4.78
Aeroquip Corp.	Quar. Dec. 31	.30	.43

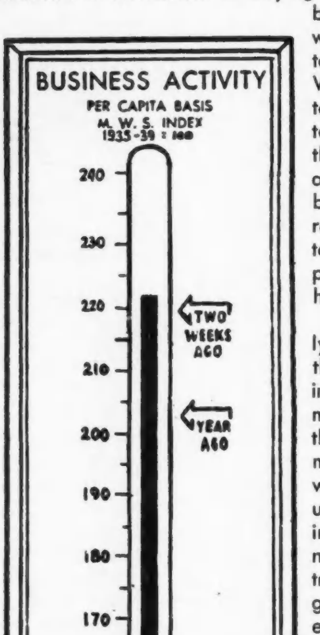
*—Reflects strike in final quarter.

The Business Analyst

WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

As 1955 drew to a close, there were varied schools of thought on the outlook for retail stores once the hectic Christmas buying had abated. One group, forecasting a sag, was quite prominent, while another conspicuous faction believed a curtailment in buying of such items as automobiles and major appliances would give a fair-size lift to store sales in 1956. While a month may be too brief a span on which to evaluate judgments for the year, first indications, at least, are that this will be another banner year for retailers. As January drew to an end, the burden of proof was on those who had taken the dim view.



Retail trade rose slightly in the early weeks of this year. Consumer spending was stimulated by numerous clearance sales and the traditional January promotions. Considerable gains were recorded in the volume of household furnishings and apparel lines, notably sportswear. This trend should not be altogether surprising in an economy that has more people at work (and at higher wages) with the passing months. Stores across the nation last year rang up record sales in a market where personal income had soared to $303 billion. Even that lofty plateau should be surpassed this year as wages go higher.

The trade is not exactly oblivious to this steady growth pattern. Buyer attendance has been rising noticeably in major wholesale centers, which means retailers have been increasing their purchases of spring wares. Not a few retailers have found their suppliers short of stock. And while serene confidence prevails among leading merchants on the volume front, they are less sanguine about the matter of costs and profits. It is difficult to see how they can escape the problem of rising costs, which stems, in large measure, from the prospects of higher minimum wages (rising to $1 hourly from 75 cents in March), which may include categories hitherto exempt. Stores were able to reduce payroll expense last year largely through increased use of self-service methods and this trend may be expected to accelerate as the wage factor becomes a more onerous item.

On the subject of profits, their plight is even more burdensome. The fierce competition stemming from the burgeoning discount houses is familiar enough to every shopper and they are no passing phenomena, having surpassed the department stores as vendors of consumer durables in scores of cities. Not to cut prices to meet this competition is to surrender the battlefield to the discount houses and to fight fire with fire (which is the only sensible tactic) entails whittling profit margins.

Granting that the volume of business at the retail counter will continue to rise from the record level established in 1955, the level of profits (somewhat improved last year) is still too low to provide long-term security to the merchants. Increased sales cannot be relied on to boost net, because increased expenses are inevitable. Therefore costs must be slashed wherever possible—preferably without sacrificing any of the stores' conventional services to their customers but, if necessary, by charging for certain services.

While monetary authorities have grown uneasy about soaring consumer credit, the merchants feel there is no danger at this time of overselling the public on credit. They note that delinquencies are almost negligible. Indeed, they incline to the view that they have not yet realized the full potential of credit selling and that customers can safely be urged to increase installment buying. Of course, the automobile market, where new cars have been offered for $5 down, contains many important leaders who feel similarly. Installment credit, meanwhile, has jumped $5 billion in a year's time, a ninefold rise from the preceding year. The heavy stress laid on credit and the declining quality of the creditor could work a hardship on retailers and other businesses in the event of an even moderate setback to the economy.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—High grade bond prices have exhibited marked strength in the two weeks ending January 23, with corporates, municipals and Treasury obligations all sharing in the improvement. News developments which investors construed as favorable to lower interest rates were the main reason for the advance. Of possibly major long-term significance was the continued evidence of declining demand for homes, with its portent of lower mortgage borrowing in 1956 which would increase the supply of funds available for other investments. The production and sales slowdown in the auto industry and the sharp drop in stock prices were also regarded as strengthening the argument that an easing of business in general was not too far away. A business downturn, of course, would bring a switch in Federal Reserve policy to one of lowering interest rates. The Federal budget provided further bullish ammunition in view of its contention that budget surpluses should be used, at least in part, for the reduction of Federal debt. Optimism was generated, too, by the action of short-term money rates, which eased sharply, for the first time since October. As a consequence, the Treasury had to pay only 2.245%, at annual rates for its January 23 bill borrowing, a sizeable reduction from the 2.688% rate of late December. In this field, however, temporary factors played an important role, stemming from the large pools of cash that were being kept in readiness to pay for the $642 million Ford stock issue and the $415 million Illinois State Toll Highway Commission bonds. These funds were kept working, meanwhile, by investment in Treasury bills and other short-term instruments. In the case of the Ford issue, the seller, the Ford Foundation, is investing part of the proceeds of the stock sale in long-term bonds, bolstering demand in that sector.

If a note of caution is in order in the midst of all these bullish developments, it is provided by the Federal Reserve Board's continuing action to prevent any undue growth of credit. The Central Bank has been a heavy seller of Government securities liquidating almost $1 billion of commitments in these obligations in the two weeks ending January 18. By this action, the monetary authorities have given clear evidence that they for one are still not convinced that the economy has averted the dangers generated by boom conditions. Apparently, much clearer signs of an easing of business will have to appear, before the Federal Reserve will take decisive steps to reverse its tight credit policy.

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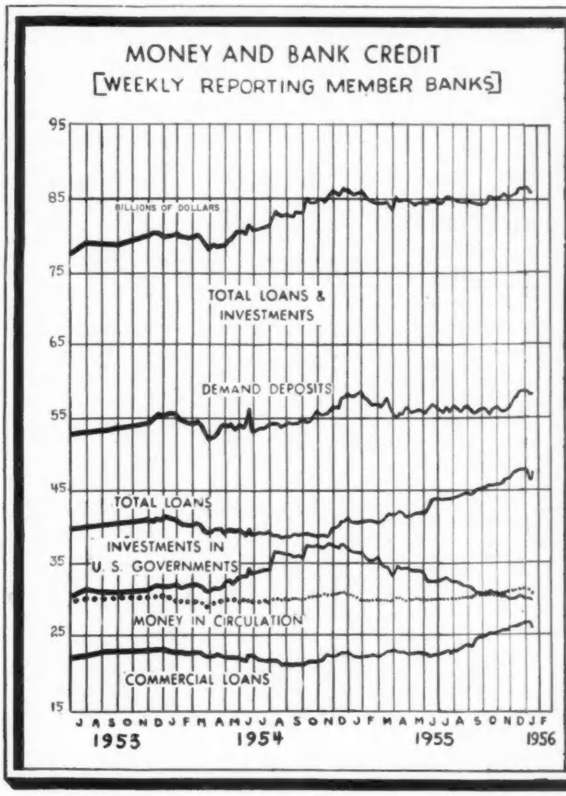

TRADE—Retail sales have been maintained on an even keel thus far in January with Dun & Bradstreet estimating that dollar volume in the week ending Wednesday, January 18, was about 5% ahead of a year ago. The Northwest area made the best showing with a 7% gain. Furniture sales remained high and steady in the latest week but demand for major appliances and television sets declined noticeably. Auto sales dipped slightly and dealers were reportedly worried about high inventories. Food purchases registered an uptrend while apparel demand was mixed.

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INDUSTRY—The MWS Index of Business Activity rose sharply in the week ending January 14, to reach 222.1, up from 217.1 a week earlier and not far from the all-time high of 223.6, reached late in December. Output of coal and paperboard advanced strongly in the latest week while steel production, electric power output and carloadings all gained more than seasonally.

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COMMODITIES—The Bureau of Labor Statistics' index of spot prices of 22 leading commodities turned down in the two weeks ending January 20, losing 2.0% during the period, to close at 88.7% of the 1935-1939 average.

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Nov.	3.0	3.1	3.2	1.6
Cumulative from mid-1940	Nov.	608.4	605.4	568.1	13.8
FEDERAL GROSS DEBT—$b	Jan. 17	280.2	280.3	278.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Jan. 11	58.4	58.4	58.0	26.1
Currency in Circulation	Jan. 18	30.6	30.9	30.0	10.7
BANK DEBITS—(rb)**					
New York City—$b	Nov.	68.2	66.9	63.2	16.1
343 Other Centers—$b	Nov.	110.9	104.1	99.1	29.0
PERSONAL INCOME—$b (cd2)	Nov.	311.4	309.2	290.8	102
Salaries and Wages	Nov.	215	213	199	99
Proprietors' Incomes	Nov.	50	50	48	23
Interest and Dividends	Nov.	28	27	25	10
Transfer Payments	Nov.	17	17	17	10
(INCOME FROM AGRICULTURE)	Nov.	15	15	15	3
POPULATION—m (e) (cb)	Dec.	166.5	166.3	163.7	133.8
Non-Institutional, Age 14 & Over	Dec.	118.0	117.9	116.8	101.8
Civilian Labor Force	Dec.	66.6	67.2	63.5	55.6
Armed Forces	Dec.	2.9	3.0	3.3	1.6
unemployed	Dec.	2.4	2.4	2.8	3.8
Employed	Dec.	64.2	64.8	60.7	51.8
In Agriculture	Dec.	5.9	6.9	5.3	8.0
Non-Farm	Dec.	58.3	57.9	55.4	43.2
Weekly Hours	Dec.	41.2	40.5	41.3	42.0
EMPLOYEES, Non-Farm—m (lb)	Dec.	51.2	50.6	49.5	37.5
Government	Dec.	7.3	7.1	7.2	4.8
Trade	Dec.	11.7	11.1	11.4	7.9
Factory	Dec.	13.4	13.5	12.6	11.7
Weekly Hours	Dec.	41.4	41.2	40.5	40.4
Hourly Wage ($)	Dec.	1.93	1.93	1.83	0.66
Weekly Wage ($)	Dec.	79.90	79.52	74.12	21.33
PRICES—Wholesale (lb2)	Jan. 17	111.5	111.7	110.1	66.9
Retail (cd)	Nov.	208.5	208.9	207.6	116.2
COST OF LIVING (lb2)	Nov.	115.0	114.9	114.6	65.9
Food	Nov.	109.8	110.8	111.1	65.9
Clothing	Nov.	104.7	104.6	104.6	59.5
Rent	Nov.	130.9	130.8	129.2	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Nov.	15.8	15.8	14.4	4.7
Durable Goods	Nov.	5.7	5.7	4.9	1.1
Non-Durable Goods	Nov.	10.1	10.0	9.4	3.6
Dep't Store Sales (mrb)	Nov.	0.92	0.92	0.86	0.34
Consumer Credit, End Mo. (rb)	Nov.	35.1	34.6	29.2	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Nov.	28.1	27.5	23.1	14.6
Durable Goods	Nov.	14.6	14.1	10.5	7.1
Non-Durable Goods	Nov.	13.6	13.4	12.7	7.5
Shipments—$b (cd)—Total**	Nov.	27.4	26.7	24.0	8.3
Durable Goods	Nov.	13.8	13.3	11.3	4.1
Non-Durable Goods	Nov.	13.6	13.4	12.7	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Nov.	81.4	80.8	77.1	28.6
Manufacturers'	Nov.	45.6	45.3	43.3	16.4
Wholesalers'	Nov.	12.3	12.2	11.7	4.1
Retailers'	Nov.	23.5	23.3	22.1	8.1
Dept. Store Stocks (mrb)	Nov.	2.6	2.5	2.4	1.1
BUSINESS ACTIVITY—1—pc	Jan. 14	222.1	217.1	203.0	141.8
(M. W. S.)—1—np	Jan 14	284.6	278.1	253.8	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 587)

Weakest components were raw materials, down 3.1% and metals, off 2.2%, a reversal of previous strength in these items. Food lost 0.3%, fats and oils gave up 0.6% while textiles and fibers were unchanged.

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The **NATIONAL INCOME** rose to a new top of $325.7 billion, at seasonally adjusted annual rates, in the third quarter of last year, a $5.0 billion gain over the previous quarter and $27.0 billion ahead of a year ago. Earnings of employees, which advanced $4.8 billion in the latest quarter, accounted for most of the gain in the most recent period. Corporate profits after taxes were at a $22.2 billion annual rate in the July-September period, but this included $2.6 billion attributable to increased value of inventory. After adjustment for this factor, the profit rate amounted to $19.6 billion, down from $20.6 billion in the previous three months but well ahead of the $16.2 billion garnered a year ago.

* * *

NONFARM HOUSING STARTS sagged to 75,000 units in December, markedly under the 90,600 homes started a year ago. On a seasonally adjusted annual basis, starts in the latest month came to 1,187,000 units, lowest level in eighteen months. Further weakness is anticipated in early 1956, in view of the sharp drop in appraisal requests filed with the Government's mortgage guarantee agencies. The FHA and the VA have taken cognizance of the drop in housing demand and recently reinstated guarantees of 30-year mortgages. However, required down payments, which were increased last year, were not eased in the latest move, and this may discourage some would-be buyers.

* * *

Orders for 42,278 new **FREIGHT CARS** were received by manufacturers in December, continuing the buying splurge which started in June. For the year as a whole, orders were placed for 169,872 cars, compared

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Dec.	144	144	130	93
Mining	Dec.	127	125	116	87
Durable Goods Mfr.	Dec.	160	161	143	88
Non-Durable Goods Mfr.	Dec.	127	125	116	89
CARLOADINGS—t—Total	Jan. 14	710	611	602	933
Misc. Freight	Jan. 14	374	316	309	379
Mdse. L. C. l.	Jan. 14	58	48	56	66
Grain	Jan. 14	51	41	44	43
ELEC. POWER Output (Kw.H.) m	Jan. 14	11,594	11,057	9,928	3,266
SOFT COAL, Prod. (st) m	Jan. 14	10.6	9.3	8.7	10.8
Cumulative from Jan. 1	Jan. 14	19.9	9.3	17.2	44.6
Stocks, End Mo.	Nov.	70.3	71.7	71.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Jan. 13	7.0	7.0	6.7	4.1
Gasoline Stocks	Jan. 13	172	169	162	86
Fuel Oil Stocks	Jan. 13	39	40	51	94
Heating Oil Stocks	Jan. 13	101	107	100	55
LUMBER, Prod.—(bd. ft.) m	Jan. 14	235	179	238	632
Stocks, End Mo. (bd. ft.) b	Nov.	8.6	8.6	9.2	7.9
STEEL INGOT PROD. (st) m	Dec.	10.5	10.2	8.3	7.0
Cumulative from Jan. 1	Dec.	117.0	106.5	88.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Jan. 19	608	462	257	94
Cumulative from Jan. 1	Jan. 19	1,231	622	1,037	5.692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Jan. 14	262	264	241	165
Cigarettes, Domestic Sales—b	Nov.	32	33	29	17
Do., Cigars—m	Nov.	581	551	554	543
Do., Manufactured Tobacco (lbs.)m.	Nov.	18	17	16	28

PRESENT POSITION AND OUTLOOK

with only 23,324 units ordered in 1954. Freight car deliveries rose to 3,796 in December, from 3,427 in November. At the year-end, unfilled orders amounted to 147,320 units, with about 47% of the total held by car builders and the remainder on the books of the railroad shops. Heavy ordering of cars was stimulated in recent months by the desire of the railroads to secure the advantage of rapid amortization, which expired at the year-end. This raises the possibility that some of the orders placed are not too firm and may be cancelled if carloadings were to ease.

* * *

PRIVATE DEBT increased by $39 billion last year, a rise almost three times as great as occurred in 1954. This was brought out in the President's Economic Report which estimated that total net private debt at the year-end amounted to $381 billion. This total amounted to about one and one-fifth times consumer and business spending during the year which compares with a debt to spending ratio of one and three-fifths in 1939 and one and two-thirds in 1929.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

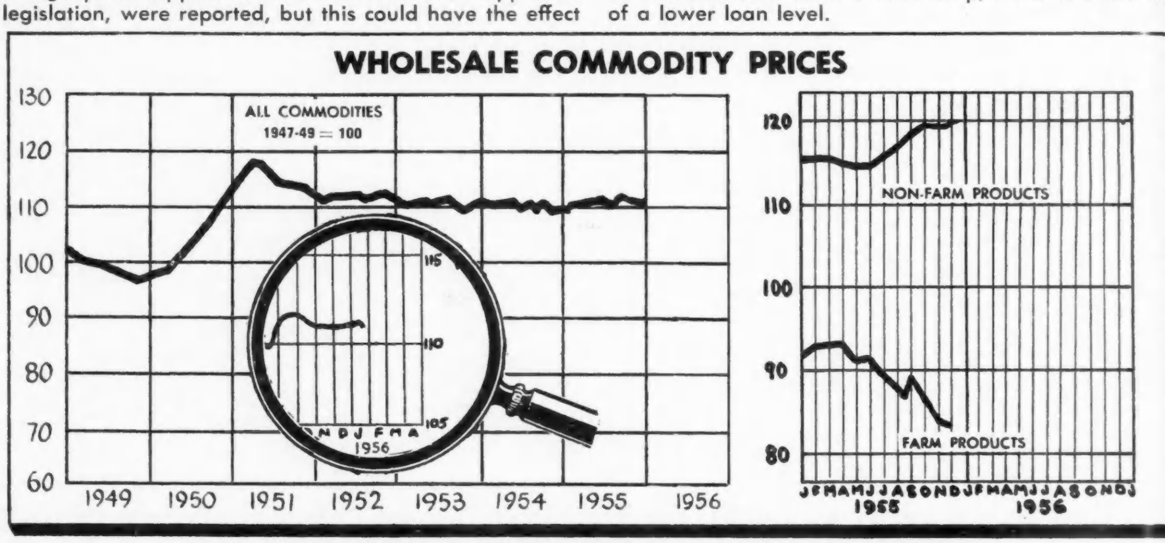
No. of Issues (1925 Cl.—100)	1955-56 Range High	1955-56 Range Low	1955 Jan. 13	1956 Jan. 20
300 Combined Average	329.8	282.0	326.7	315.9
4 Agricultural Implements	348.7	264.9	327.1	310.7
3 Air Cond. ('53 Cl.—100)	116.0	87.0	103.8	98.8
9 Aircraft ('27 Cl.—100)	1205.5	871.7	1148.4	1088.5
7 Airlines ('27 Cl.—100)	1263.6	971.2	1013.0	971.2
4 Aluminum ('53 Cl.—100)	388.1	191.1	366.7	355.6
6 Amusements	180.6	147.0	158.2	150.3
9 Automobile Accessories	368.6	308.3	348.8	338.1
6 Automobiles	55.8	44.3	49.7	48.6
4 Baking ('26 Cl.—100)	30.6	27.8	28.4	28.7
3 Business Machines	930.6	657.4	867.3	831.5
6 Chemicals	598.4	466.6	586.4	562.5
4 Coal Mining	20.3	14.8	19.4	19.2
4 Communications	116.6	100.7	107.0	103.9
9 Construction	127.3	106.4	117.1	112.3
7 Containers	769.8	675.1	769.8	731.7
7 Copper Mining	333.4	222.2	298.6	283.7
2 Dairy Products	127.0	112.9	117.6	112.9L
6 Department Stores	100.2	80.0	90.9	88.1
5 Drugs-Eth. ('53 Cl.—100)	178.2	129.6	173.7	168.5
6 Elec. Eqp. ('53 Cl.—100)	182.5	151.3	178.9	175.2
2 Finance Companies	651.1	565.1	613.7	583.9
6 Food Brands	300.6	256.2	295.7	284.0
3 Food Stores	163.7	137.7	162.4	157.6

(Nov. 14, 1936 Cl.—100)	High	Low	1955 Jan. 13	1956 Jan. 20
100 High Priced Stocks	220.1	180.6	217.2	209.2
100 Low Priced Stocks	392.5	343.5	390.0	378.9
4 Gold Mining	806.0	649.1	749.2	786.3
4 Investment Trusts	157.1	140.8	154.0	150.8
3 Liquor ('27 Cl.—100)	1155.7	961.3	1045.8	1005.1
9 Machinery	395.8	317.7	385.8	370.4
3 Mail Order	234.1	159.3	210.7	197.6
4 Meat Packing	138.0	112.8	130.4	127.7
5 Metal Fabr. ('53 Cl.—100)	187.0	155.9	187.0	183.3
10 Metals, Miscellaneous	452.3	358.2	430.5	404.7
4 Paper	1057.8	767.1	1049.8	1007.8
22 Petroleum	706.1	590.0	706.1	678.5
21 Public Utilities	258.5	234.8	248.9	246.4
7 Railroad Equipment	90.6	73.4	89.7	85.2
20 Railroads	77.9	64.7	74.4	71.3
3 Soft Drinks	565.7	459.9	518.3	507.7
12 Steel & Iron	320.9	219.2	302.5	283.8
4 Sugar	68.8	56.1	64.4	64.4
2 Sulphur	964.0	813.2	904.6	877.2
11 Television ('27 Cl.—100)	47.3	40.7	42.7	41.0
5 Textiles	188.9	148.4	182.6	180.7
3 Tires & Rubber	182.7	137.8	182.7	169.9
5 Tobacco	95.7	81.9	95.7	93.9
2 Variety Stores	315.0	286.9	298.8	293.0
15 Unclassif'd ('49 Cl.—100)	158.1	141.9	150.8	147.8

L—New low for 1955-1956.

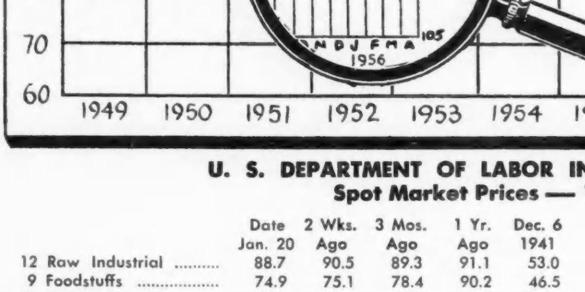
Trend of Commodities

Commodity futures prices were generally lower in the two weeks ending January 24 and the Dow-Jones Commodity Futures Price Index fell 2.55 points to close at 150.39, penetrating last year's bottom by a fraction. Traders were disturbed by some phases of the Administration's farm program, especially a provision for distributing surplus grains on the domestic market at lower prices than now permitted. Some industrial commodities weakened on signs of business contraction in a few lines with rubber especially soft. May wheat lost 1¾ cents in the two weeks under review, to close at 206¼. Appreciable moisture in some areas was deemed of benefit to the winter wheat crop and this brought in liquidation. Congressional maneuvers designed to attach a high price support rider to Administration approved legislation, were reported, but this could have the effect of delaying passage of any helpful legislation. May corn lost ½ cent in the fortnight ending January 24, to close at 133½. The CCC continues to liquidate Government-owned corn, with sales from October 1, 1955 to January 4, 1956 totaling 40,192,000 bushels, versus 25,865,000 bushels sold a year earlier. Country offerings of the staple have been light, however, and exports have improved somewhat. Cotton futures were mixed in the latest period with near-term options slightly higher while new-crop futures gave some ground. Major influence on old crop contracts has been the heavy movement of cotton into the loan which will reduce the available supply of "free" cotton. CCC offers of cotton for export have been going well, with a favorable effect on sentiment. As for the 1956 crop, there is some fear of a lower loan level.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — 1947-1949, equals 100

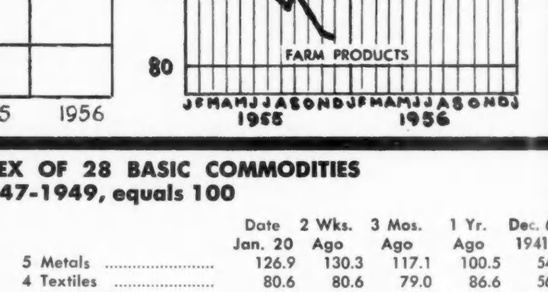
	Date Jan. 20	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
12 Raw Industrial	88.7	90.5	89.3	91.1	53.0
9 Foodstuffs	74.9	75.1	78.4	90.2	46.5
22 Commodity Index	99.6	102.7	97.4	91.5	58.3
5 Metals	126.9	130.3	117.1	100.5	54.6
4 Textiles	80.6	80.6	79.0	86.6	56.3
4 Fats & Oils	63.2	63.6	65.8	67.7	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	165.3	154.4	162.2	215.4	111.7	88.9	57.7	86.6
Low	153.6	147.8	147.9	176.4	98.6	58.2	47.3	54.6



Average 1924-26 equals 100

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	173.6	183.7	166.5	214.5	95.8	74.3	65.8	93.8
Low	150.4	167.3	153.8	174.8	83.6	58.7	57.5	64.7

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Air Reduction

"What dividend does Air Reduction Co. pay, and what were recent earnings? Any information you can give me in regard to the company will be appreciated."

F. J., Santa Cruz, Cal.

Air Reduction Co. accounts for 30% of total domestic output of oxygen and acetylene gas. It also produces medical gases and equipment and welding instruments. It is also the largest dry ice manufacturer.

Quarterly of Air Reduction Co. was increased recently from 35¢ to 45¢ per share on the common stock, with the latest payment made on December 5, 1955. This latest dividend was the 154th consecutive regular quarterly dividend paid by the company on its common stock and represents an increase of 10¢ per share in the regular quarterly dividend rate.

Net income of Air Reduction Co., for the third quarter of 1955, was $3,184,134 as compared with net income of $1,569,919 for the third quarter of 1954. After payment of the preferred stock dividend, the earnings per share of common stock during the third quarter were 99¢, an increase of 120% over the earnings of 45¢ per share for the comparable period in 1954.

During the first nine months of 1955, net income was $8,354,767, as compared with net income of $4,789,652 for the first nine months of 1954. After payment of the preferred stock dividend, the earnings per share of the common stock during the first nine months were $2.59, an increase of 82% over the earnings of $1.42 per share for the comparable period in 1954. Sales also were up. Third quarter sales of $38,342,689 were 23% higher than sales of $31,120,266 in the third quarter of 1954. For the first nine months of 1955, sales of $109,534,996 represented an increase of 20% over sales of $91,046,742 in the similar 1954 period.

Prospects for 1956 continue favorable.

Baltimore Gas & Electric

"I am retired and am seeking a good quality utility investment that will yield a stable income return. Would Baltimore Gas & Electric qualify?"

E. B., Paducah, Ky.

Baltimore Gas & Electric is a sound utility, providing a stable income return, and is attractive for conservative investors. It serves Baltimore and vicinity, with about 71% of revenues from electricity and most of the remainder from gas service.

Operating revenues increased $10,009,000 during the first eleven months of 1955 in comparison with the corresponding period of 1954. Over 80% of this additional revenue came from greater volumes of electricity and gas sold, and the remainder from higher electric and steam heating rates, effective throughout the 1955 period but only during five months of the 1954 period. The volumes of electricity and gas sold reached record levels, having increased 12% and 16%, respectively, over corresponding sales during the eleven months of 1954.

Total operating expenses were $8,281,000 higher than in the first eleven months of 1954. About a third of this increase represented the cost of producing and purchasing the additional volumes of electricity and gas sold. The remainder was due primarily to the higher price paid for natural gas purchased from pipeline supplier, to increased wage rates and to higher taxes. The Federal Power Commission ordered reductions in rates which the company had been paying a utility in Pennsylvania for hydroelectric power. This saving was shared with customers through credits on their July bills. These credits and settlements of other items relating to the rate reduction reduced the 1955 Federal income taxes by $2,875,000. As this large tax reduction arose from transactions in years prior to 1955, a special charge offsetting the reduction was included in operating expenses for the eleven months of 1955 in order to avoid distortion of net income for this period.

Net earnings, after providing for preferred stock dividends, were equivalent to $1.95 per average share of common stock compared with $1.75 per share in the same months of 1954, when fewer shares were outstanding.

To secure capital for continuing expansion and to repay bank loans incurred earlier in 1955, the company sold $30,000,000 of 35-year 3¼% bonds in November.

New dwelling units completed in the company's territory during the eleven months of 1955 exceeded the record of any prior calendar year. 15,539 electric and 11,334 gas residential customers were added. Large volume of

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Taking the Pulse of Business

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if any, are bound to favor wage-earners in this election year.

Assuming that wage rises, in substantial measure, will be compensated by productive efficiencies and the trend to automation, they should serve as one of the props under the economy during 1956. Yet another is the never-ending developments in our industrial laboratories that have produced whole new industries — notably television, electronics, atomic energy and frozen food.

Fixed investments by business likewise loom large on the credit side of the ledger. Plans call for the spending of a record amount in this quarter. While that pace is not likely to be maintained through the year, the total should compare favorably with the approximate $28.4 billion expended last year. That exceeded the 1954 sum by $1.5 billion.

Then there is Government spending, which is on the way up. The President once talked of cutting Federal expenditures to $60 billion. But in his budget message to Congress this year, he set a figure of $65.9 billion, an increase of $1.6 billion over the estimate for the year ending June 30, 1956. The military budget alone is scheduled to rise nearly a billion to $35.6 billion in the year starting July 1. Housing, schools, highways and other services will take a big chunk, too.

This generation of Americans is inured to multi-billion-dollar Federal outlays, but often overlooks the fact that our state and local governments have begun to vie with Washington as a lush customer. The mounting demand for services and facilities growing out of the trek to Suburbia and the development of whole new regions has turned their quest for more cash into a scramble. Spending by state and local governments, as a partial result, has soared from $10.5 billion in 1944 to $40.5 billion in 1955. While there is no little waste in the operation of these governments and no end of grumbling by the payers of real estate, excise, franchise and highway-toll levies, it must be remembered that there has been rising pressure for new schools, hospitals, roads, water and sewage systems (to cite but a few). It must also be borne in mind that building costs have pyramided two and three times since pre-war days. Spending by these state and local governments in the year underway should top the 1955 record. It should serve to prop up numerous industries, notably construction.

Our foreign trade, at peak levels despite the instability of numerous Latin-American countries and the problem of disposing of farm surpluses, should remain around the new lofty plateaus. Foreign aid costs (not merely defense) are likely to be on a lavish scale for years to come as this nation vies with the Soviet Union for friends abroad.

Factors Not So Favorable

A studied search for clouds on the horizon will uncover quite a few. Thus, the American farmers have not participated to any appreciable degree in the current boom. We have noted the problem of disposing of our farm surpluses abroad, not to mention the large-size headache these gluts have caused at home. The plight of cotton is an outstanding illustration of the woes that face the nation on this front in 1956.

Since the end of World War II, the production of cotton in the Free World overseas has been rising steadily and now is within striking distance of consumption, which last season approximated 18 million bales. If the trend is continued, it would be but a couple of years until these nations no

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Companies Facing Wage Renegotiation Problems

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worsted mill employees.

Next Goal 4-Day Week?

Coming up this month will be negotiations by the machinists union with Lockheed Aircraft. This will be the forerunner of discussions scheduled for March and April by Douglas Aircraft with the machinists and UAW unions and by North American Aviation with the UAW. The accompanying compilation represents a timetable of other negotiations in key industries scheduled for the balance of the current year.

Meanwhile, labor is preparing other new demands although it is not expected these will be presented until 1957 or shortly thereafter. One of the new goals of the unions is a shorter work week. Walter Reuther has already referred to this in a statement before the U. S. Senate's Joint Subcommittee on Automation, to the effect that: "Within a few years, automation should make possible a four-day work week, longer vacation periods, opportunities for earlier retirement." —END.

Year-End Corporate Statements

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and yielding 3.8% on the present $1.40 annual dividend, appears to be adequately priced in the market. It can be retained, however, for its long-term appreciation reflecting further growth of the company in an expanding industry.

ALLIED CHEMICAL & DYE CORP. — In its year ended last December 31, Allied Chemical's total sales and revenues of $628.5 million exceed the previous year's total by approximately $98 million or 18%, and were the highest for any year in company history. This achievement was matched by a new high also in net earnings. Although it wrote off $23.3 million for amortization of defense facilities, or about $8 million more than in 1954, preliminary figures show net income for 1955 at $52.1 million, up by better than $9 million over the $43 million it showed as net income for 1954. After adjustment for the 5% stock dividend last December 1955 net income equaled $5.45 a share. This compares, on the adjusted basis, with $4.32 a share in 1954, before adding 24 cents a share after taxes from sale of Allied's holdings of Air Reduction stock. Net earnings in each quarter of 1955 were at new record highs.

While second quarter adjusted net at $1.54 a share reflected increased seasonal sale of nitrogen to fertilizer makers, the continued gains in the third and

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final quarters over corresponding months of 1954 indicate expanded sales of Allied's other widely diversified products in which, barring a major setback this year in general business activity, it is expected it will set new highs in sales volume. In the current year, also, Allied should be able to reflect the benefits of important plant projects completed in 1955 and which involved starting-up expenses in that year. Continuation of the earnings uptrend through 1956 might presage more liberal disbursement of dividends maintained at $3 annually since 1951. The stock currently selling around 110½, yielding 2.7%, ranks as a high grade investment issue worth holding for its growth potentials over the long-term.

DIAMOND ALKALI CO. — For Diamond Alkali, 1955 opened on an upbeat, the company having closed the previous calendar year with sales at $93.5 million, 7.8% above the preceding 12 months, and in a position to benefit from new productive capacity reached through expansion as well as modernization of plants. First quarter 1955 sales and earnings provided evidence that this optimism was justified. In that period sales of $24.4 million were up by $2.3 million over the like 1954 first quarter, and earnings of 66 cents a share for the common stock compared with 54 cents a year ago.

When 1955 closed, sales of Diamond chemicals for the full year had reached approximately $110.2 million, higher by 18% over 1954, with net earnings increasing 53% to about $8.4 million, equal to $3.38 a share. This showing is after allowing for preferred dividends and after adjusting for the 3% stock dividend owners of the common stock received last December, and compares, on the same basis, with 1954 net of $5.5 million, or $2.14 a share.

Considerable progress was also achieved in further strengthening its finances. On hand at the 1955 year-end was $14.2 million in cash and equivalent as compared with $7 million at the close of 1954. With the availability of funds beyond those earmarked for normal requirements, $1.2 million installment on bank notes were prepaid a year in advance. Because of the strong current position which is expected to be augmented through the anticipated generation of cash through 1956 depreciation charges estimated at approximately $9.5 million, Diamond has called for redemption $6 million par value of its 4.40% convertible preferred stock at $103 a share, plus accrued dividends to February 24, the redemption date. Each share of this issue is convertible through February 21 into 2.369 shares of common which, on the basis of current market price, would have a total value of $106.60. Complete conversion of the called preferred would result in the issuance of an additional 142,140 common shares. Such an increase in the number of common shares outstanding would have only a minor effect in diluting earnings on this issue. With redemption of 60,000 shares of preferred stock and in view of the company's strong finances, it is conceivable that some consideration may be given during the current year to a more liberal cash dividend. —END.

Taking the Pulse of Business

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longer needed any cotton grown in the United States. Although the State Department has taken a dim view of the proposal, Secretary of Agriculture Ezra T. Benson appears determined to whittle our cotton (and, doubtless, other agricultural products) glut by cut-rate sales to foreigners. At home and abroad, there seems no pat solution to the nagging problem of farm surpluses, although almost everyone in Washington has a panacea. The only certainty is that this Administration, like its predecessor, will throw a larger measure of support to the farm economy, which should, at least for 1956, bolster that sagging segment.

Consumer Credit Balloons

Buying "on the cuff" established a record last year. While this sharp expansion of a long-time trend was a pleasing development to makers and sellers of automobiles, appliances, jewelry, "package vacations" and a host of other items, it stirred considerable concern among many business people and financial authorities. Many of these were disturbed, not so much by the present situation in installment credit nor the total amount (around the $35 billion level), but by the fact or indication that successive relaxation of terms has been largely responsible for keeping the ball in the air. This is the feeling of Allan Sproul, president of the Federal Reserve Bank of New York. He has suggested that the Federal Reserve be given permanent authority to regulate consumer credit, which has ballooned from $9 billion at the time of Pearl Harbor. In the absence of any curbs whatever, installment credit rose out of sight in 1955, jumping on the order of $5 billion. For all 1954, the increase was only $588 million.

In the absence of any change in the ground rules covering credit, it is reasonable to wonder why this violent fluctuation occurred in the space of a year. The answer, of course, is to be found in the continuing prosperity, which encouraged many people to buy everything, from housewares to European junkets, "on the cuff." Confident that their jobs were secure and imbued with a philosophy that must seem strange to our more conservative senior citizens, they went deeply into debt. For protracted periods last year, individual savings actually declined amidst the greatest prosperity the country had ever known.

Automobiles grabbed off the lion's share of this installment-buying spree. For the first 10 months of 1955 alone, car installment credit climbed $3.7 billion to a total of $14.1 billion. In all 1954, the increase was only $55 million. With spanking new cars selling for $5 down, it was obvious long before the year closed that the industry was scraping the bottom of the barrel for customers. Having "borrowed" liberally from 1956 sales in 1955, the industry now is cutting back production and laying off thousands of workers.

Long-Term Growth Indicated

Perforce, the automotive industry has set its sights somewhat lower for this year. It is hardly likely that the public this year will step up its car-buying on credit on the order of the 1955 rise. Besides, 1956 models (tens of thousands of 1955 models remain unsold) are notably lacking in the design departure that prompt people to trade in their old cars. There has been a lot of talk that 1957 models will feature radical changes, making the vehicles now available "obsolete." If sales of 1956 models should prove to be a disappointment, the industry may be expected to bring out the 1957 "out of this world" cars by late summer.

We must not lose sight of the fact that this is America's No. 1 industry, with a general impact on the over-all economy. Its fortunes are of first-rate importance to automotive-supply companies, the rubber field and the steel industry.

Controlling the Boom

We have noted the extent to which the automotive industry and other makers of consumer goods and services relied last year on credit-buying to boom sales. Business people, too, borrowed heavily to expand and finance inventories. But, unlike the consumer, the business community came up against a tightened credit policy instigated by the Federal Reserve Board. This policy calls for restrictions when our prosperity is threatened by inflation and a loosening of credit whenever the level of business activity is faced with decline. The monetary authorities have shown themselves to be extremely flexible in adapting their methods to the needs of the moment. Margin rates covering stock purchases were hiked on two occasions when it was feared the equity markets were headed for excesses.

Despite costlier credit, business was adding to inventories, in the final quarter of last year, at a $6 billion annual rate. There is, of course, some distortion in the inventory figures, which cover a record backup in automobiles. At all events, there is small likelihood that the recent high rate of inventory accumulation will be exceeded in 1956. Indeed, business may find presently that inventories have reached levels commensurate with current sales. In such case, a cessation of inventory

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Sound Diet for the Investor

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common stocks for those investors who wish a list with which to make replacements from other common stocks which they may have sold or which they contemplate selling in the near future.

As a matter of sound investment practice, we would suggest that at this particular juncture of the market, portfolios should be arranged according to the following approximations:

reserves (cash, short-term bonds, govt. bonds, etc.)	25-30%
corporate bonds, including sound preferred stocks	20-25%
investment-grade common stocks	20%
growth-type common stocks	20%
speculative common stocks	5-10%

This arrangement is suited to ordinary investment needs after the prolonged market rise since it gives due weight to the factor of safety, without sacrificing profit potentials. —END

Depressed Bread Baking Companies

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and mayonnaise.

Dollar sales of Continental, during the third quarter of 1955, amounted to $59,574,000, a rise of 11% from the year-earlier period. Part of this increase resulted from the operation of Stewart's. Still, bread and cake sales alone increased about 9%. Net profit for the quarter was $1,988,000, equal to $1.55 on each of the 1,167,617 shares of common participating in the quarterly dividend. This compares with 91 cents on each of the 1,075,429 shares of common for the same quarter of 1954. At latest reports, the company was bringing down to net 3.34% of the sales dollar. This is the best showing since 1950, when the share of net income to sales was 3.66%. In 1954, it slid to 2.68%, the lowest since the end of World War II.

The year just ended, doubtless, produced record sales for Continental, helped in large measure by companies taken over. It was also one of the best years, from the standpoint of net. In the 39 weeks to September 24, 1955, sales amounted to $172,898,000 and net was $5,483,118, compared with $154,835,000 and $3,634,000 in the like period a year earlier.

Not only the small, but medium-size bakers are losing their corporate identities in the drive to effect economies. The merger of Purity Bakeries and American Bakeries has made the emerging entity a giant (*American Bakeries Co.*) that serves the eastern half of the nation from Duluth to New York and from Amarillo to Miami. American now has 60 plants in the South, Midwest and along the eastern seaboard. It also operates more than 100 retail Cushman stores in the New York area.

The company's sales and earnings were virtually static in 1953 (the year of merger) and 1954, but the advantages of the combined operation became apparent in 1955. For the 40 weeks ended October 8, 1955, net profit soared to $3,877,000, or $2.30 a common share. This compares with $3,032,000, or $1.77 a share, in the similar 1954 period.

General Baking, one of the Big Three bread-bakers, has made no secret of its interest in consummating a merger. Indeed, the company has linked the problem of relief from its $8 cumulative non-callable preferred stock, of which there is about 83,000 shares outstanding, to a merger. Presumably, the merger would call for a refinancing program of the two companies. General Baking, best known for its Bond Bread, has more than twoscore bakeries in 30 states. Its farflung operations, incidently, constitute a formidable hurdle to a merger. Because of antitrust laws, any company with which General Baking combined would have to be one that operated outside the areas in which General Baking now sells its products.

The company netted $668,000 for the first half of 1955, a slight increase over the year-earlier showing. But for the 39 weeks ended September 24, 1955, net was $1,133,000, or 40 cents a share. This trailed the year-earlier showing of $1,196,000, equal to 44 cents a share. The company should, over the long term, derive important benefits from its new $500,000 distribution plant at Wilmington and its new $2 million bakery at Spartanburg, S. C. The company also has had considerable success with a premium bread, under the Grossinger name. General Baking is a prime example of the infinitesimal earnings per dollar of sales, common to this industry. On the basis of latest figures, the company has brought down to net just 1.8 cents of the sales dollar. On the credit side, the company has managed to pay some dividend in each year since 1921.

No Yeast at Ward Baking

Ward Baking Co., one of the five largest commercial bakers and a

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Depressed Bread Baking Companies

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leading bread-baker in the East, is having more difficulties than its giant competitors in giving a lift to sales and earnings. In the first quarter of last year, as an example, net profit was a mere $96,000, or just 3 cents a common share. For the 28 weeks to July 9, net was $572,000, equal to 51 cents a share. Additional improvement was registered as the year wore on, so that for the 43 weeks to October 22, net was $1,062,000, or $1.02 a share. This compares with $1,077,000, or $1.04 a share, for the 42 weeks ended October 16, 1954.

Ward's problems have been manifold: Competition from private-label bread, which many grocery chains sell for less than Ward's Tip-Top; the competition from chain-baked bread, on the rise in the era of the supermarket; it employs driver-salesmen, who receive commissions, whereas drivers for grocery chains simply deliver bread and are paid regular wages only; and the declining per-capita consumption of bread. The company hopes to offset these handicaps with its premium bread, which utilizes more milk, more sugar and more shortening. Production and advertising expenses in connection with the launching of such products have, of course, retarded earnings progress at this time. In addition, the company is on the lookout for food products other than bread and cake.

Reflecting the adverse fortunes of the company, which has paid some dividend in each year since 1945, is the dwindling rate of disbursement.

Interstate Bakeries Corp., an important factor in the Midwest and in California, probably boosted 1955 net to about $3,375,000, or $4 a share, from the $3,188,000, or $3.70 a share, earned in 1954. Sales last year are believed to have reached a new peak of about $100 million, up from the 1954 total of $94,210,000. This outstanding showing was achieved despite strike losses in the first quarter. Chiefly responsible for the company's showing were new plants in California and the Southeast, aggressive sales and a continued program of modernization.

Interstate paid last month a 25% stock dividend, increasing outstanding common shares to 954,506 from 763,605. In addition a higher cash payout is anticipated for this year.

Since this article was designed to canvass the bakers of bread, we have not touched upon such companies as Sunshine Biscuits and United Biscuit of America, which derive their revenues almost exclusively from cookies and crackers.

To sum up the bread-bakers then, it would appear that this is an industry in which volume is moving upward while the over-all profit structure is little changed. Manufacturing costs, particularly production and distribution labor also are moving higher. Reports from leading bakers indicate that net profits continue near the 3% level which has prevailed for several years in this field. Intensive promotional activities throughout the industry, building primarily on the great nutritional value of bread in every diet, undoubtedly is contributing to better volume. And, of course, expanding population has and will continue to play an important role in creating a still broader market for the baker. This factor, combined with the campaign to increase per-capita consumption of bread, points to continued improvement, although of modest proportions.

Bread-baking stocks do not hold out the prospect of vigorous, much less dynamic, growth. The better-entrenched companies have long histories of steady earnings, impressive records of dividend payments and strong finances. Through mergers, acquisitions, stepped-up automation, promotion of cake and allied products, and diversification, largely frozen and pre-packaged food, they should be able to improve volume and profit margins. Finally, from the investor's standpoint, they pose relatively small risks, not having participated to any appreciable extent in the stock market upsurge. —END

In The Next Issue

3 Sound Stocks With Above-Average Yield

Is More Foreign Aid Justified?

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match dollars with rubles, for, unlike ourselves, the Russians are not giving something for nothing. Even when dealing with other Communist countries, such as Red China, the Russians make it pretty clear that they expect repayment. They have been most successful where they have been able to absorb burdensome export surpluses of the countries concerned. Thus they have absorbed the rice surplus of Burma and have relieved Egypt of most of its cotton carryover. In the Western Hemisphere, Cuba was only too glad to sell some of its sugar behind the Iron Curtain, while Uruguay and Argentina found the Satellites eager to buy wool and meat surpluses. The deals have not always worked out satisfactorily, and this should console the West. Burma took in exchange for her rice many products that she does not need and will have to resell. Some of the Latin American Republics have found that the Satellites do not always deliver on time and consequently find themselves holding the bag, at least temporarily.

Deals with Russia have been all the more welcome as some of the food and raw material countries have found themselves hard pressed by our farm surplus disposing tactics. Under existing laws, a part of our aid has to be in farm surpluses. By giving rice to Japan we are undercutting Burma's chances to sell her rice in that market; this is an urgent matter for Burma since rice is her principal source of foreign exchange.

It is therefore important that we realign our surplus-disposal and foreign-spending programs. There is not much sense in undercutting a single crop country that is emerging from a colonial stage of development in its natural market, and then turning around and giving that country economic aid.

There is no doubt that the trading tactics of Iron Curtain countries and Moscow's "foreign investments" in steel plants and factories in South Asia and the Near East must be watched. There is reason to believe that Communist agents follow in the wake of Soviet engineers. However, most of the countries, including the uncommitted ones, should by this time be aware of the conspiratorial nature of communism. That is one side of the picture. On the other hand, any increase in the international ex-

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Taking the Pulse of Business

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accumulation may be expected and the decline in demand from this source would present a problem of finding other outlets for this amount of output.

Boom Levels Off

While no sizable decline looms for the economy in 1956, neither does it appear that we shall witness a continuance of the rate of progress that made 1955 a banner year. Still, with more people at work, and at higher wages, personal income should even mount from the year-ago figure. An added fillip may come from tax cuts later in the year.

For industry, net profits, by and large, should be somewhat lower for the year as a whole, since there is no sign of tax relief for business and costs (labor, materials and the like) will mount. It is difficult to see how the take-home pay of business can be increased in 1956, even assuming a slight increase in total volume.

All in all, so far as 1956 prospects are concerned some shrinkage on a number of business fronts would seem to be in the cards, with further repercussions being felt as the year wears on.

In the event that a major downturn threatened, we must not overlook the fact that the Administration is prepared to support the economy. While multi-billion-dollar projects, covering such undertakings as highways and schools, may encounter obstacles in Congress in the midst of a lush boom and full employment, these plans surely would get a green light in the event of a substantial downturn in the economy. Indeed, it would appear that a good deal of such work will go forward in the absence of any need for pump-priming. —END

Is More Foreign Aid Justified?

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change of goods—even with the Communist countries — is to the good if it leads to an increase in the purchasing power and living standards of the underdeveloped countries. The higher the standards, the greater the creation of wealth and the less chance that these countries will go communist.

The Need for Glamorizing Our Foreign Aid

The Russians have also been clever in concentrating their assistance to underdeveloped countries on a few flashy projects: cement and textile mills in Afghanistan, steelworks and diamond mines in India, textile and sugar mills in Indonesia. All together, these projects probably cost less than a billion dollars, a small fragment of what we have spent in the past or what we spend currently. Yet these projects are likely to capture the imagination of the peoples now emerging from the colonial stage of their economic development.

Compare this with our aid. We have spread our aid around the whole globe. Many countries are getting but driblets of aid. Yet these driblets often help to finance the most imaginative projects: introduction of new crops, modernization of agriculture, and the building of communal facilities in underdeveloped countries all the way from Bolivia and Guatemala to India and Burma.

The bulk of our military aid, currently running at the annual rate of about $2.5 billion, has been going to Western European countries, with Germany, Spain and Yugoslavia probably heading the list. There is no way of telling how much of this aid was in military hardware and how much in aviation gasoline and other fuels. Most of the recipients have by this time taken this aid for granted. As for Greece, Turkey, Iran, Nationalist China, Vietnam, and South Korea, there appears to be little chance that military grants to them can be appreciably reduced unless they get on their feet economically.

The economic grants, as it will be seen from the master table, are running at the rate of $1.9 billion. Roughly $750 million has gone to seven countries: Indochina, Nationalist China, South Korea, Iran, Turkey, Greece, and Yugoslavia, all of them economically weak and all bordering on lying close to the Communist orbit. Some of the countries, such as South Korea and Vietnam, are bottomless "ratholes" insofar as aid is concerned, and their support will have to continue.

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Answers to Inquiries

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new industrial and large commercial business was secured. Contracts for over 126,000 kw. of new-connected electric load, and 687,000 cu. ft. per hour of gas load were obtained. These new loads, acquired in eleven months, exceed similar new business obtained in any prior full calendar year. The acquisitions of new business will require the company to continue making substantial expansion of its facilities to meet the increasing demands for electric and gas services in its area.

Current quarterly dividend is 40¢ per share. Prospects continue favorable.

International Minerals & Chemical

"I understand that International Minerals & Chemical Corp. was adversely affected by a long strike. I would appreciate receiving late earnings data, and also, what are the prospects for the company in 1956?"

W. D., Ormond Beach, Fla.

International Minerals & Chemical Corp. is a leading fertilizer maker, producing potash and superphosphates; activities are expanding through acquisitions.

For the fiscal year ended June 30, 1955, International Minerals & Chemical Corp. earned $6,321,903 compared with $6,043,979 for the previous year, which was equivalent to $2.55 per common share, compared with $2.44 for the year ended June 30, 1954.

The four months' strike in the Florida phosphate fields, occurring as it did in the historically low sales volume season of the corporation's operations, resulted in losses during the last month of

the past fiscal year and particularly during the first three months of the current fiscal year. While the strike was damaging, it was only of a temporary nature and the company is rapidly getting back to normal. The president of the company believes the chances are favorable to recoup some of the losses, which, together with improved and expanded operations in the new plant should result in earnings about as good as the previous year.

For the three months to September 30, 1955 net sales were $15,938,240 and net after taxes showed a deficit of $859,509, equal to deficit of 41¢ per share. This compares with the three months to September 30, 1954 when net sales were $17,056,348 and net after taxes $561,355 (includes $201,000 non-recurring income), equal to 20¢ per share.

The company is in a strong financial condition. It has successfully weathered a difficult strike, and it is ready and able to maintain and continue its business, which has growth prospects.

Dividends are expected to continue at the 40¢ quarterly rate.

General Telephone

"Your publication is very interesting and helpful, but seldom includes reports on General Telephone, which I own. Please submit recent data on this company and express an opinion on prospects for 1956."

L. N., Oakland, Cal.

General Telephone, a holding company, controls the second largest telephone group in the United States. Operations were recently enlarged by merger with the Theodore Gary & Co. and subsidiaries. Territory served is growing, and this enhances the longer-term outlook.

Consolidated net income of General Telephone Corp. and subsidiaries (including Theodore Gary & Co. and subsidiaries—merged October 31, 1955 for all periods) for the first eleven months of 1955 amounted to $27,982,000, as compared with $21,966,000 for the same period of 1954. Consolidated net income for the twelve months ended November 30, 1955 was $30,356,000, as compared with $24,285,000 for the year 1954.

After dividends on preferred stocks of current companies, the consolidated net income applicable to the common stock of General Telephone for the first eleven months of 1955 amounted to $27,541,000, equivalent to $2.39 per common share on 11,513,000 average common shares outstanding, and this compares with $21,753,000 for the same period in the previous year, equivalent to $1.99 per common share on 10,931,000 average common shares.

For the twelve months ended November 30, 1955, the net income applicable to the common stock was $29,899,000, equivalent to $2.60 per common share on 11,505,700 average common shares, as compared with $24,056,000 for the year 1954, equivalent to $2.19 per common share based on 10,968,500 average common shares.

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Is More Foreign Aid Justified?

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Another $750 million or so has gone to France, Great Britain, Germany and Italy, with France alone accounting for some $507 million. The bulk of the payments to France really represent our contribution to meet French expenses incurred in connection with the campaign in Indo-China, which taxed France's resources severely. Our payments to Great Britain, Italy and Germany were our contribution to the cost of manufacturing military equipment for the NATO countries as well as part of the cost incurred in maintaining British troops overseas. To call it "economic aid" is a misnomer.

The remainder of our economic grants, amounting to some $400 million, has been spread rather thinly all over the remainder of the Free World. Among the largest recipients are India and Pakistan, where our aid is being used to step up production of food by helping out with irrigation projects or erection of fertilizer plants. Other countries which received substantial amounts are Spain and Israel, which we are trying to prop up economically.

Fortunately, the "economic aid" given to France and Great Britain during the fiscal year 1955 is nonrecurrent, and some sharp reduction is in the cards. On the other hand, it will be a tough task to put the remaining 30 to 40 countries receiving our aid on a reduced diet. —END.

In The Next Issue:

Guided Missiles Coming to Fore

Louisville & Nashville Railroad

(*Continued from page* 580)

has not shown a more substantial increase in revenues is the almost steady 10-year decline in passenger revenues from $23 million in postwar 1946 to $11 million in 1954.

Carrying human beings profitably has long been one of the major headaches of U.S. railroads. Unlike passenger-conscious roads such as Santa Fe, Union Pacific and Southern, the L&N has never made much effort to build the prestige of its few name trains or add new ones (it does have the *Pan Americans* and the *Humming Birds* on the Cincinnati-New Orleans run).

Like most railroads, the L&N continues to lose money on passengers—and a lot of money. It figures the loss at $7,000,000 yearly out-of-the-pocket (much more than that for I.C.C. accounting purposes).

Although it loses money on passengers, L&N has built up a profitable revenue producer in its equipment rentals, mostly for freight cars which speed offline bearing coal and industrial goods for the midwest. At the basic rental of $2.40 daily these wandering boxcars bring L&N almost $10,000,000 yearly.

Cutting Costs

Expenses are the millions of dollars which stand between operating revenues and net income for the stockholders. In this category L&N has an enviable record. For example, in 1953 (a good coal year), L&N ranked ninth among the 42 largest railroads in the amount of operating revenues carried through to net operating income (income before taxes). In 1954 (not such a good coal year) it still managed to rank fifteenth. In any school, that would be a B plus average.

From the analysts' viewpoint, the most interesting development on L&N last year was the road's ability to discount the efforts of two months' strike which interrupted operations.

President Tilford explains the results this way: "Our operations were seriously disrupted but business came back strong during the Summer and Fall, particularly the movement of coal—and the final earnings for the year will substantially exceed 1954."

Naturally, L&N cut maintenance, but just how well it handled expenses is indicated by comparison with a competing road. L&N revenues for the first 11 months of 1955 were 9% below the same 1954 period versus an increase of 12% for Southern Railway. But L&N earnings were up 12% compared with 10% for Southern.

This is the kind of cost control that appeals to stockholders. Moreover, in the past decade L&N's income available for fixed charges has averaged $29 million or close to four times the average fixed charges of $8,000,000.

As might be expected, working capital is strong. At latest report L&N had $30.3 million stashed in its depository banks plus $9,000,000 temporary cash investment. All told, working capital (current assets minus current liabilities) totaled the large sum of $50 million. This amount alone is equal to almost six full years of the current $9,000,000 fixed charges, a very strong capital position indeed.

Besides its strong earnings record and working capital position, a plus factor for L&N stockholders is no preferred stock ahead of the common. The capitalization consists solely of 2,340,000 common shares outstanding (par value $50). If the NC&StL merger goes through as expected the authorized stock will be boosted from 2.5 million shares to 3 million shares, and 1½ shares will be issued for each NC&StL share held publicly.

Since war end the stock price has ranged from 39½ in 1946 to 90¾. Currently it sells around 87, or roughly 5.7% on the basis of a $5 dividend. And there is a possibility of a $1 boost in the yearly dividend. As the table shows, net income for the 11 months of 1955 totaled a healthy $9.24 a share. Based on November net, total earnings for the year should be close to $11 a share.

To summarize, favorable factors for the L&N are the likelihood of improved operating efficiency from continuing capital investment in diesels, new yards, heavier track, better car-handling, faster accounting methods. Also, there will be important savings from the expected merger with

(*Please turn to page* 602)

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We advised subscribers to buy Southern Railway when it was 61. Since then, it was split 2-for-1 — cutting our cost to 30½. At this writing, it is selling at 106¼ — showing subscribers over 248% appreciation. On January 24, 1956, the company announced a proposed 2½-for-1 stock split . . . declared a $2.00 extra dividend — and raised the quarterly dividend to $1.00. The $6.00 in 1956 dividends will mean a yield of over 19.6% on our original buying price.

The Forecast has recommended a number of extremely profitable stocks that split. For example, in April, 1954, it advised subscribers to purchase Sperry at 59. On November 1, 1954 it was split 2-for-1 . . . on March 1, 1955 it paid a 5% stock dividend . . . and on July 1, 1955, each share was exchanged for 3¼ shares of Sperry-Rand.

Therefore, if you bought 100 Sperry at 59 for $5,900 . . . you would now have 682½ shares of Sperry-Rand at 25¼, worth $17,233 . . . a profit of 200% in a year and 9 months.

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BUDGET FINALLY BALANCED

(*Continued from page* 559)

national product dwarfs the public debt just as high wage levels hypnotize a broad public into believing that no danger lurks in a continuing and ever-growing consumer indebtedness.

Organized labor and pressure groups in the States and cities representing all manner of money-seeking interests eager to place additional burdens on the Federal Treasury will support the idea of welfare state spending and, in an election year, their voices will be loud and insistent. It will be a miracle if the Budget can be held even within the limits the President has set.

Rudyard Kipling tells a tale of how he induced an Eastern magician to perform tricks by assuring him that the practice was not forbidden. "I said," the story goes, "that far from magic being discouraged by the Government, it was highly commended. The greatest officials of the State practiced it themselves. If the financial statement isn't magic, I don't know what is!"

President's Economic Report

Generally speaking, the President's Economic Report contained no surprises. The picture of national prosperity which he drew is a familiar one. He pointed to our expanding national income, with a $400 billion economy being shared to a greater extent than ever before by most, though not all, classes of our society. He alluded to the record levels of employment and wages, and noted the importance of the factor of capital investment. Incidentally, continuation of these expenditures at high levels, it is expected may offset any declines which may occur this year in other sectors of the economy.

The President called attention to the basic causes of the farm-income problem and emphasized what is too often ignored as a prime factor in farm difficulties —namely, the "technological revolution in American agriculture, changing demands for farm products, and expansion of agricultural production abroad." He recommends the "Soil Bank" as a partial solution of the farm problem but many experts are not so sure that this will really provide the answer.

Of greatest interest to businessmen and investors was the President's firm insistence that taxes should not be cut this year. He seemed very strong on this point and, it may thus be concluded, that he will not change from this position in coming months. He was especially firm on the question of excise taxes. He feels that these taxes should not be allowed to expire on their due date of April 1. The President takes his highly conservative position on taxes because he feels that a reduction at this time would add to inflationary pressures.

The President made an unusually strong reference to the need for expanding foreign trade and facilitating improved economic conditions among nations friendly to us. He based this recommendation on the long-term premise that the continued economic growth of this nation, to an important extent, would be influenced by world economic conditions as they develop over the years.

Of particular interest was the President's not too thinly veiled hint that regulation of consumer credit may be on the way back. Though the President does not suggest that the time has actually arrived for such action, he nevertheless seems prepared to advocate a Congressional review of the entire consumer-credit situation, with a view to possible legislation when needed. —END

Louisville & Nashville Railroad

(*Continued from page* 600)

NC&StL. Secondly, the fine working capital position which can mean effective reduction in debt plus favorable interest rates on any new or refinanced debt. Thirdly, the possibility of quicker freight rate increases from the I.C.C. along with more favorable rail legislation as a result of the Presidential Cabinet committee report on transportation. Fourthly, the situation of the L&N in a growing area of the country —increased population, new plants, a steadily growing flow of iron ore through Gulf ports. And in fifth, but not necessarily last, place the outlook that over the years more, not less coal, will be used in the U.S. Another possible plus item: if the management acts more aggressively, it can probably cut passenger losses further and boost passenger revenues.

Against such favorable factors stand these: First, the outlook for lower freight volume this year. Second, higher freight rates, now awaiting I.C.C. approval, may help balance higher wages recently granted but they may also divert more freight to competing carriers.

In the balance, *Old Reliable* stock at the current price of 87 with a well-protected dividend looks like a sound investment. And there is a good chance the dividend may be increased because the road now pays out less than 50% of earnings to shareholders.

— END

For Profit and Income

(*Continued from page* 585)

defensive section of portfolios. There are numerous excellent issues. To repeat some previous suggestions, which might interest new readers, we like these among others: American Gas & Electric, Cleveland Electric, Consumers Power, Florida Power & Light (for long-pull growth), Ohio Edison, Public Service of Colorado, Washington Water Power, and (also for long-pull growth) such issues as Texas Utilities, Middle South Utilities, Houston Lighting, Central & South West and Southern Company.

Ideas

On the basis of presently expected gains in current-year earnings, the following speculative stocks, all of fair quality, appear to offer above-average potentialities for appreciation: American Airlines, American Steel Foundries, Beaunit Mills, Bridgeport Brass, Mueller Brass and U. S. Plywood. American Broadcasting - Paramount and Tidewater Associated Oil should pay off over a longer period. An important build-up of earnings of the latter should be seen by 1957, due to completion of a major new Eastern refinery. It might take ABC two years or so to build its TV advertising revenue and

(*Please turn to page* 603)

BOOK REVIEWS

Know Your Social Security

By ARTHUR LARSON

Here is the most complete and up-to-date handbook for general use on our social security system. The intricate provisions of the Social Security Act are translated into clear terms to explain how the law affects the citizen, the employee, the employer, the self-employed, and the beneficiary.

Following an introductory review of the background and policy behind the act, the book covers step-by-step, the rights and obligations of the individual citizen under social security. Government officials find that thousands of persons lose the benefits to which they are entitled, through misunderstanding or neglect. Using a concrete example to illustrate each type of case, the author describes in full:

–How to estimate benefits
–Fully-insured and currently-insured status
–Old age pensions for one person or a married couple
–Pension additions for children
–Life insurance for widows and children
–Rights during disability
–Special rules for particular employment
–Specific provisions for farm labor
–Relations of benefits to other income and insurance
–How benefits may be lost

The responsibilities of employers and the self-employed under the law are outlined in detail, and the whole book is systematically organized and indexed for easy reference to any standard or special situation.

Know Your Social Security is up to date on the changes in the law enacted in 1955. This promises to be the standard work on the subject for personnel managers, lawyers, social workers, labor officials, employment offices, teachers, and consequently for all school, public, business, and union libraries.

Mr. Larson is now the Under Secretary of Labor, but he writes here as an individual citizen and points out that the book should not "be taken to represent an official government policy or interpretation."

Harper $2.95

Economics and Action

By PIERRE MENDÈS-FRANCE and GABRIEL ARDANT

In this account of the history and findings of economics, Pierre Mendès-France brings before the public a tragic problem all too often thrust into the background but which can no longer be evaded. The state of our economy today forces us to choose between blind empiricism and scientific planning, between unemployment and progress, between war and peace. 'The question is whether man will be able to mobilize for peaceful work the same resources that he can mobilize for war or preparation for. . . .'

This book suggests ways and means, and defines the technique for any such mobilization.

Columbia University Press $3.50

Knowledge is Power

By FRANK W. NYE

Percy H. Johnston, one of the nation's most notable bankers, started his business career at the age of eleven as a lamplighter in Lebanon, Kentucky. Deciding early in life that he wanted to be a banker, he worked tirelessly toward that goal and, when he had finished high school, entered the Marion National Bank of Lebanon.

His early realization that "knowledge" is indeed "power" led Johnston to devote himself zealously to the study of accountancy, banking methods and banking law. At twenty-six he became the youngest National Bank Examiner ever appointed. He was quickly promoted and placed in charge of the examiners in eleven south-eastern states and, a little later, to examiner-at-large status.

At thirty-three he was elected cashier of the Citizens National Bank of Louisville where he was promptly promoted to first vice-president. He quadrupled their deposits in four years. This led to his appointment in 1917 to the same office in the Chemical National Bank of New York. For many years the Chemical was the leading bank in the western hemisphere but, since 1893, had dropped to 136th place in the nation.

Within a few months Johnston doubled the Chemical's deposits and, in January 1920, was elected the youngest bank president in New York City. Under his leadership the Chemical weathered two world wars, two major depressions and the greatest stock market crash in history without failing, in any quarter, to pay its regular dividend and add to its net worth. When he retired in 1946, the Chemical was the sixth largest, and the Chemical Corn Exchange Bank is now the fourth largest in the United States. Johnston is Chairman of the Executive Committee.

His knowledge of banking prompted leading bankers' associations to elect him to office and to choose him as their spokesman. On three occasions Presidents of the United States consulted him on banking problems. Two universities awarded him Doctor of Laws degrees. He was elected President of the Chamber of Commerce of the State of New York, the New York Clearing House Association, the Reserve City Bankers, the Bankers Club of America, the New York Southern Society, the Montclair Golf Club.

No man of the century has made greater contributions to commercial banking standards and ethics. That Johnston is a well-rounded man is shown by the fact that he has distinguished himself as a sportsman in hunting, fishing, tennis, golf, wood chopping, beetle picking, bridge and backgammon; and that few living men have more warm friends or are better beloved by their families. The power which Johnston acquired through knowledge has been exercised quite as much in helping others to get on, as in achieving business success.

Random House $5.00

For Profit and Income

(*Continued from page* 602)

profits up to attainable levels as measured by present unsponsored network time.

More Ideas

Growth stocks of the rank popular with institutional investors are all premium-priced in varying degrees, although purchases of selected favorites on a continuing dollar-averaging basis can always be justified. Among good medium-grade growth equities, American Cyanamid, McGraw-Hill and Outboard Marine & Mfg. are still priced reasonably on likely 1956 and longer-term per-share earnings. A sound lower-priced growth stock with interesting possibilities over an extended period is Beckman Instruments, now around 27. The company, which is plowing all earnings back into expansion, is an upcoming producer of electronic and laboratory instruments and related items. It is still small enough for a substantial growth potential, yet well established.

Income

Defensive-type income stocks suitable for current buying include American Tobacco, Beneficial Finance, Woolworth, Consolidated Natural Gas, American Chicle, Pacific Lighting, Reynolds Tobacco, Melville Shoe and Sterling Drug.

The Trend of Events

(*Continued from page* 552)

and distorted. We share the view of a noted Democrat who held that no gas could scarcely qualify as cheap gas.

By now, everyone is familiar with the failure to develop off-shore oil deposits as long as it remained shackled to the legislative rostrum. Only when Congress got out of the way did the nation get the benefits (with more to come) from these deposits. And one of Congress' truly worthwhile achievements consisted of something that it shrewdly chose not to do. Despite the urgings of the Cellers, Patmans and Morses, Congress last year declined to upset the sale of Government synthetic rubber plants to private business. In the intervening months the hollowness of the charge of another giveaway became apparent. The fires of competition have wrought remarkable changes in synthetic rubber, bringing forth a burgeoning petrochemical industry which promises to make an important contribution to the national welfare. END.

Answer To Inquiries

(*Continued from page* 599)

All periods reflect the merger of General Telephone Corp. and Theodore Gary & Co., consummated on October 31, 1955. Shares outstanding for all periods reflect the 50% stock distribution made June 30, 1955.

Consolidated operating revenues of telephone subsidiaries totaled $190,106,000 for the first eleven months of 1955, compared with $172,132,000 for the same period in 1954. Including manufacturing and sales subsidiaries not consolidated, total consolidated revenues for the first eleven months for General Telephone System amounted to $317,761,000 in 1955, as against $287,773,000 in 1954.

For the twelve months ended November 30, 1955, telephone operating revenues totaled $206,494,000, compared with $188,517,000 for the year 1954. With manufacturing and sales subsidiaries included, General Telephone System consolidated revenues were $347,046,000 as of November 30, 1955, contrasted with $307,917,000 for the year 1954.

Telephones in service for the System companies at November 30, 1955 totaled 2,540,000, with 2,522,000 in the United States and 18,000 in Canada and the Dominican Republic.

Dividends were recently increased to 40¢ a share quarterly, from 32¢. The outlook for 1956 is favorable.

West Virginia Pulp & Paper Co.

"As a recent subscriber, would you please submit recent data on West Virginia Pulp & Paper Co., giving sales volume, dividends and expansion prospects?"

M. H., Cherryvale, Kan.

West Virginia Pulp & Paper Co. is a leading producer of printing and converting, and an important maker of kraft products; through a merger in November, 1953, company's container board production was integrated with Hinde & Dauch's corrugated box manufacturing facilities, — a move which should considerably improve basic earning power with industrial demand for containers in long-range upward trend.

Record level of sales, earnings and production were attained by West Virginia Pulp & Paper Co. for fiscal year 1955, ended October 31st.

Net sales amounted to $176,237,000 in 1955, as compared with $164,843,000 in 1954, an increase of 7%.

Net income came to $15,724,000, a rise of 20% over earnings of $13,096,000 reported in 1954. After dividend requirements on preferred stock, earnings were equal to $3.08 per share on 4,934,888 shares of common in 1955, as compared to $2.57 per share on 4,906,768 shares of common for the previous year.

The six mills of the company manufactured a total of 852,666 tons of printing papers, white converting paper, bleached paperboard, kraft paper, containerboard, hard board and market pulp during 1955, an increase of more than 60,000 tons over the previous year's high of 791,548 tons. Production of Hinde & Dauch, a subsidiary, reached a new high of 3,139,438 sq. ft. of corrugated products, as compared with 2,784,836 sq. ft. in 1954. Chemical divisions of the parent company produced a total of more than 60,000 tons of active carbon, tall oil and lignin products during the year, which accounted for sales of more than $7,000,000.

The company reallocated a substantial portion of its rising tonnage, shifting some of its capacity from the production of lightweight publication papers to enlarge its output of higher quality grades of printing paper sold to commercial printers.

The company's expenditures for plant improvement and expansion reached during 1955 a cumulative total of $140,000,000 for the ten years since the end of World War II, and for the next few years promise to exceed $25,000,000 annually.

The most important single component of capital outlays for 1956 will be spent toward a third large kraft machine at the Charleston, S. C. mill, on which preliminary construction already has begun.

Finances of the company are strong, and it is regarded as a low-cost producer in its industry. Prospects continue favorable.

The quarterly dividend is 35¢ per share.

As I See It!

(*Continued from page* 553)

could Mr. Eden have told us that he could do to end the cold war and bring peace to the world? Surely, he could not have argued that the alternative was war with Russia—because Russia expects to win by infiltration and diplomatic intrigue, and is not likely in the meantime to want a war that would destroy the assets of the Arab countries she is courting so assiduously today. Russia still wants victory by appeasement.

It is clear the situation calls for a policy of enlightened self-interest on the part of the United States. Anything else is not only unlikely to "pull British chestnuts out of the fire," but further shrink the area of freedom and bring victory to Russia.

I believe if Britain is obliged to carry on under her own steam, the urgency to do so will bring out a leadership needed to make the grade. With Kruschev and Bulganin about to visit Britain, it's something to think about.

—END.